https://www.unionleader.com/news/business/money_sense/money-ense-retirement-plans-for-small-businesses/article_69b9b3f1-4a76-5d18-befc-23e53575ae14.html

'Money $ense': Retirement plans for small businesses

By Marc Hebert
Jul 3, 2021

A RETIREMENT PLAN can benefit a small business owner and employees in saving for the future. It can also offer the business deductions for contributions from employers and tax-deferred investment growth for earnings inside the plan.

There are a few types of plans to consider, including IRA-like plans, such as SEPs or Simple IRAs, or qualified plans, such as 401(k)s, profit sharing, and defined benefit plans. Qualified plans, for the most part, are more administratively complicated and expensive to maintain; they have to meet Internal Revenue Code provisions and ERISA rules to keep the tax benefits.

If you have a business, it is worth taking the time to review the advantages and disadvantages of various plans before implementing one. As is typical in planning, it makes sense to clarify your goals from the start. Do you want to maximize the amount you can save for your own retirement? Do you want your employees to be able to contribute? Do you want to make contributions for your employees? Do you want both pre-tax and Roth contribution options to be available? Is your income from the business fairly consistent or would you need to skip making contributions in some years? Can your business afford plan expenses? Can you maintain the plan easily?

With the answers to these questions in mind, here are some plans to consider:

SEP plans set up IRAs for all participants. Each participant is given the same percentage of pay as a contribution. The good news here is that contributions don't have to be made every year and there are low start-up and operating costs. Employees who are age 21 or older, have worked for the employer for three of the last five years, and earn $650 or more must be included in the plan.

Another IRA-based option is a Simple IRA plan. You are able to set this plan up if you have 100 or fewer employees. Once again, administration costs are low. With this plan, employees can make pre-tax contributions up to certain limits. The employer matches the contributions up to 3%.

It is possible to make fixed contributions as well. An employee earning $5,000 or more in any two prior years and is anticipated to earn this in the current year may participate.

One type of qualified plan is a profit-sharing plan. This plan is flexible in that contributions are discretionary. To remain qualified, the contributions must be nondiscriminatory and made often enough to be substantial and recurring. A formula is used to determine how contributions are allocated to participants. Each participant is given his or her own account and may have to meet certain years of service to participate.

The 401(k) plan is a qualified profit-sharing plan with a deferral feature. Participants can make contributions into the plan that go into separate accounts for the participant. Employers may match the employee contribution. These plans can be complicated to administrate. Certain tests, called discrimination tests, must be done to make sure the contributions don't benefit higher-paid employees disproportionally. There are safe harbor provisions that can be adopted to avoid discrimination testing.

The final type of plan to mention is the defined benefit plan. This plan guarantees employees a specific benefit at retirement. Contributions are made to meet the benefit specified. This plan generally needs an actuary to determine the annual funding level. These plans are costly and complex. Generally, they can provide the largest retirement benefits possible for an owner.

Keep in mind that contribution funding limits and other laws may change periodically. Be sure to review current laws and rules.

It is also wise to discuss setting up a plan and funding it with your business or financial adviser before doing so.

Marc A. Hebert, MS, CFP, is a senior member and president of the wealth management and financial planning firm The Harbor Group of Bedford. Email questions to Marc at **mhebert@harborgroup.com**. Your question and his response might appear in a future column.