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CHOOSING A SMALL BUSINESS RETIREMENT PLAN (Published December 17, 2005, Columbia Business Times) - 12/17/2005

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About 500 Words

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CHOOSING A SMALL BUSINESS RETIREMENT PLAN

COLUMBIA, Mo. – So you're the owner of a small business, and you want to offer your employees a retirement plan. Which one do you choose?

There are basically six options available, the Defined-Benefit Plan, Profit-Sharing Plan, 401(k), Safe Harbor 401(k), Simple IRA and SEP IRA.

All of the plans allow tax-deductible contributions, and the money in the plans is not taxed until it is withdrawn at retirement, according to Kathy Lou Neale, an investment representative with Edward Jones. Funds cannot be withdrawn from the plans before age 59-and-a-half without a penalty, and distributions must begin to be withdrawn at age 70-and-a-half.

Similar to the traditional pension, the Defined-Benefit Plan potentially allows a large employer contribution. However, an actuary must determine employee limitations and contributions.

In a profit-sharing plan, the employer contributes a percentage of the total payroll to himself and all eligible employees. The amount varies based on criteria the business owner establishes within IRS guidelines.

The popular 401(k) plan is designed for larger businesses of about 50 or more employees. Most plans encourage employee contributions through an employer match program. However, tax-deductible contributions by highly compensated employees, those who own five percent of a company or who make about \$100,000 a year, are strictly limited to about three percent.

"Because of administration expenses, a 401(k) for five employees is too costly," said Aric Schreiner, certified public accountant with the Gillaspay CPA Group. "With a hundred employees, it would be a very cost-effective benefit to offer."

The Safe Harbor 401(k) is similar, but it is specifically designed to allow highly compensated employees to make larger annual contributions as long as they make the proper contributions on behalf of their employees. For example, for a doctor's office in which there are

two physicians and four staff people with lower incomes. After making a three to four percent contribution for their employees, the Safe Harbor allows the physicians to make tax-deductible contributions at the annual IRS limit, which is \$14,000 in 2005, plus a catch-up amount of \$4,000 if the contributor is over age 50.

The SEP (Simplified Employee Pension) IRA is entirely employer funded; employees cannot make tax-deductible contributions to their own accounts. It is used most commonly in very small businesses in which there is only one employee, such as a real estate person.

The SIMPLE (Savings Incentive Match Plan for Employees) IRA combines employer and employee contributions, usually with an employer making a contribution that is matched by the employee. In effect, it is an employer-sponsored IRA with higher annual limits, \$10,000 versus \$4,000 for a traditional IRA, that allows for employer contributions.

To set up a plan, Neale suggests contacting a good financial advisor that has been recommended to you. "Go to a trusted advisor who works with a company that has a good reputation and a strong resource capability," she said. "If you don't have a trusted advisor, go to someone who is referred to you by a friend or associate."

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