

Optimizing Your Company's Retirement Plan

If you are a business owner, you can design and implement a corporate retirement plan that will align with your goals. Many business owners create a retirement plan as a valuable employee benefit to help attract and retain talented workers.

Other business owners want to utilize their pension plan to minimize their own tax liability and maximize their own retirement benefits. For these business owners, choosing not only the right plan but also the optimal plan design is critical because if the contributions made by the business to the owner's employees exceed the owner's tax deduction, then those plans are hampering the business owners from achieving their goals.

Small businesses can create a SEP IRA and that allows them to defer the lesser of 25% of their compensation or \$69,000. However, the owner needs to contribute the same percentage of compensation for all eligible employees which can get expensive.

Alternatively, the business can start a SIMPLE IRA and the owner can defer \$16,000 with a \$3500 catchup if over age 50. Additionally, the owner can match their deferral up to 3% of their compensation. If no other employees elect to defer their pay, there would be no matches due to the employees. Some advantages of a SIMPLE IRA are that there is no discrimination testing, no annual reporting required, no filing fees, and no third-party administrator is needed.

Some companies elect to install a 401k. This allows not only a higher contribution limit (\$23,000 plus \$7500 for those over 50), but businesses can now add a ROTH 401k option, which makes the retirement benefit that much more valuable. It is strongly recommended that business owners add the ROTH option to their plan.

For those business owners who are nearing retirement, a defined benefit plan can allow older business owners to contribute hundreds of thousands of dollars each year on a pretax basis. This works especially well for business owners who are in their 50's or 60's and don't have a lot of high paid employees who are also nearing retirement.

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