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Retirement Planning Options for Business Owners

March 24, 2014

RAYMOND JAMES

Retirement Planning Options for Business Owners

In general

Perhaps you are self-employed or own a small business. Or, you may be directly involved in running a corporation or a tax-exempt organization. In any of these cases, you generally have the option of establishing a retirement plan in which you and/or your employees may participate. One of the main advantages of a retirement plan is that it promotes regular savings for the future. Having a good plan can also help you to attract and retain quality employees, and to maximize employee productivity. In addition, in the case of qualified plans and some nonqualified plans, a retirement plan can provide significant tax benefits for both employer and employee. These benefits may include tax-deductible employer contributions, and a tax deferral for employees until funds are distributed from the plan.

From your perspective as an employer, the challenge is finding the right plan. There are many different types of retirement plans to choose from, and each has unique features that are appropriate for some employers but not others. It is important that you select and implement the plan that best suits your needs, the needs of your business, and the needs of your employees.

Tip: For more detailed information on retirement plans, see our separate topic discussion, Retirement Plans. Among other things, that discussion provides information on qualified plans versus nonqualified plans, and further guidance on selecting the appropriate type of plan. In addition, it is advisable to have a retirement plan specialist assist you with the selection process.

Retirement plans most appropriate for self-employed/sole proprietorship/partnership

If you are a self-employed individual or a small business owner, you know that your needs differ from those of large employers. Accordingly, there are several types of retirement plans that are specifically designed for your situation. Consider setting up one of the following types of plans:

- Payroll deduction IRA plan
- Simplified employee pension (SEP) plan
- SIMPLE IRA plan
- SIMPLE 401(k) plan
- Individual 401(k) plan
- Keogh plan (a qualified retirement plan established by a self-employed individual or partnership)

Retirement plans most appropriate for corporations

If you are involved with a corporation, your business may have multiple employees. One of your goals in choosing a retirement plan may be to balance their needs against the needs of your business. There are many types of plans that may enable you to achieve this goal, including the following:

- Payroll deduction IRA plan
- Simplified employee pension (SEP) plan
- SIMPLE IRA plan
- SIMPLE 401(k) plan

- 401(k) plan
- Profit-sharing plan
- Money purchase pension plan
- Age-weighted profit-sharing plan
- New comparability plan
- Thrift/savings plan
- Defined benefit plan
- Target benefit plan
- Cash balance plan
- Employee stock ownership plan (ESOP)

Retirement plans for tax-exempt organizations

As the name indicates, a tax-exempt organization is not subject to federal income tax. Because of this special treatment, such an organization has unique considerations for setting up a retirement plan. (For example, an employer tax deduction is generally of little or no value.) There are two types of plans that may meet the needs of tax-exempt organizations: 403(b) plans and 457(b) plans.

In addition, tax-exempt organizations may adopt a qualified retirement plan (including 401(k), profit-sharing, money purchase, and defined benefit plans). For more information, including links to detailed discussions of each type of plan, see our separate topic discussion, Retirement Plans for Tax-Exempt Organizations.

Nonqualified deferred compensation plans

You might also consider setting up a nonqualified deferred compensation plan. Compared to qualified plans, these plans are relatively flexible in that they need not satisfy stringent requirements. You and your employees may also receive more benefits under a nonqualified plan, since there are no limits on employer contributions. However, the main disadvantages of nonqualified plans are (a) they are typically not as beneficial from a tax standpoint, (b) they are generally available only to a select group of employees, and (c) the assets are not protected in the event of the employer's bankruptcy. For this reason qualified plans usually appeal to the largest number of employers and employees.

Caution: If you are an owner and wish to be included under the plan, a nonqualified deferred compensation plan will be suitable only if your business is a regular or C corporation.

Stock plans

A stock plan is a form of employee compensation that provides your employees with either stock or an amount of cash that is based on the performance of your company's stock. There are numerous types of stock plans that you can offer to your employee, including employee stock ownership plans (ESOPs), restricted stock plans, stock appreciation rights (SARs), stock option plans, and employee stock purchase plans.

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