

## A Big Decision for Small Businesses

### The Importance of Identifying the Right Retirement Plan

There are a number of different retirement plan options available for business owners, and finding the right one for your small business can depend on a number of factors, including how your business is structured and how many employees you have.

For many small businesses owners, the costs associated with setting up and administering a traditional 401(k) plan, plus the fiduciary responsibilities involved, make that a less appealing solution. So this article will focus on the most commonly considered retirement plans for businesses with 100 employees or fewer:

- Simplified Employee Pension Plan (SEP IRA)
- Savings Incentive Match Plan for Employees (SIMPLE IRA)
- Self-Employed 401(k) plan

All of these retirement savings plans rely on contributions that can be invested in various financial products. All three can

also provide tax benefits, ranging from the ability for contributions to grow tax-deferred to the ability to deduct employer contributions to potential tax credits (up to \$500) for setup and maintenance of a plan in its first three years if it is being offered for the first time. But there are important differences between the plans as well.

#### 401(K) vs IRAS

Self-Employed 401(k) plans offer generous contribution limits and growth is tax-deferred, but they can only be used by self-employed individuals or for small businesses where all employees have an ownership interest. These plans require an annual filing of Form 5500 once assets exceed \$250,000.

SEP IRAs can be used for self-employed people or businesses with any number of employees. Contributions are made only by the employer, who can deduct them ▶

## A Big Decision for Small Businesses *continued*

as business expenses. SIMPLE IRAs function very much like a 401(k) plan but are for businesses with no more than 100 employees. They can be funded by tax-deductible employer contributions and pretax employee contributions. Neither IRA requires annual plan filings with the IRS, just certain employee notifications.

### A DIFFERENT APPROACH

Cash balance pension plans have increased in popularity recently for sole proprietors and partners in closely held businesses. For these plans, the employer credits a participant's account with a set percentage of the employee's yearly compensation plus interest, and those funds are invested. Changes in the portfolio don't affect the final benefits paid to the employee as the company owns any investment profits and is responsible for losses in the portfolio. For older business owners seeking to

supplement their existing 401(k) plans, cash balance plans offer an opportunity to contribute much more to their own retirement – \$200,000 or more in a single year.

Whether you're a sole proprietor, a partner or looking out for your employees' financial futures, your Baird Financial Advisor can help you find the right retirement plan your business.

Please reach out if you or anyone you know would benefit from discussing this topic further.