



SMALL BUSINESS GUIDE: Choosing the Right Retirement Plan for Your Business

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As an up & coming construction firm, you've reached a certain level of success and built a comfortable future for your family. Depending on the size of your company, you've also created jobs so your employees can provide for their families. But what's the next step? Establishing a retirement plan for your small business will help ensure that you and your employees have a steady stream of income, even *after* you retire. This is even more critical as the physical nature of your work, as a contractor, typically makes it difficult for employees to work into their 60's.

There are many types of retirement plans available to companies, but a select few are most beneficial to small business owners. SEP IRAs, SIMPLE IRAs, and safe harbor 401(k)s are the most commonly used plan types because of their simplicity, affordability, and minimal administrative requirements.

	SEP IRA	SIMPLE IRA	Safe Harbor 401(k)
Suitable for	Corporations, sole proprietors, partnerships, and nonprofit entities	Corporations, sole proprietors, partnerships, and nonprofit and government entities with 100 or fewer eligible employees	Corporations, sole proprietors, partnerships, and nonprofit entities
Who contributes	Employers only	Employers and employee deferrals	Employers and employee deferrals
Contribution limits	<ul style="list-style-type: none"> • For 2016: the lesser of 100% of compensation or \$53,000 • For 2017: the lesser of 100% of compensation or \$54,000 • For Schedule C: the limit is 20% instead of 25% 	Employees: <ul style="list-style-type: none"> • For 2016: \$12,500 • For 2017: \$12,500 Employers: <ul style="list-style-type: none"> • Mandatory match of up to 3% of compensation for participating employees or mandatory nonelective contribution of 2% for all eligible employees 	Employees: <ul style="list-style-type: none"> • For 2016: \$18,000 • For 2017: \$18,000 Employers: <ul style="list-style-type: none"> • Mandatory nonelective contribution of 3% or 100% match of employee deferrals up to 3% of compensation, plus 50% match of employee deferrals in excess of 3% and up to 5% of compensation (for a total of 4%)
Catch-up contributions for age 50 and older	None	<ul style="list-style-type: none"> • For 2016: an additional \$3,000 • For 2017: an additional \$3,000 	<ul style="list-style-type: none"> • For 2016: an additional \$6,000 • For 2017: an additional \$6,000

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	SEP IRA	SIMPLE IRA	Safe Harbor 401(k)
Annual IRS tax filing	None	None	Form 5500
Deadline to set up/contribute	Employer's tax-filing deadline, including extensions (if applicable)	<ul style="list-style-type: none"> The plan must be established by October 1 for contributions in the same year. Employer contributions are due by employer's tax-filing deadline, including extensions. Employee salary deferrals should be segregated and deposited, on a consistent basis, within three to five days of being withheld from an employee's paycheck. 	<ul style="list-style-type: none"> The plan must be established by October 1 to be eligible for the current year. Employer contributions can be made up to the employer's tax-filing deadline, including extensions. Employee salary deferrals should be segregated and deposited, on a consistent basis, within three to five days of being withheld from an employee's paycheck.

PLAN OVERVIEW

To help you determine which plan may be best for your business, the information below highlights the major benefits of each plan type, as well as important considerations to keep in mind.

SEP IRA

Benefits

- This plan is easy to set up and administer.
- Annual compliance testing and IRS filings are not required.
- Contributions are tax-deductible.
- Employer contributions can vary each year, and they do not have to be made every year.
 - For example, an employer can contribute 4 percent one year, 0 percent the next year, and 2 percent the year after that.
- Employers can exclude certain employees, such as anyone under age 21, those who have not been employed for at least three of the last five years, or those who have earned less than \$600 in either the current or prior year.

Important considerations

- This plan is employer funded only.
- The same contribution percentage must be used for all eligible employees (This includes you as the employer).
- Loans are not allowed.

SIMPLE IRA

Benefits

- This plan is easy to set up and administer.
- Annual compliance testing and IRS filings are not required.
- Employer contributions are tax-deductible.
- Employees can contribute to this plan.
- Employers can exclude employees who have not received at least \$5,000 in compensation during any two preceding calendar years (do not have to be consecutive years) and who are not expected to earn at least \$5,000 in the current year.

Important considerations

- Employer contributions are mandatory. Employers must make either a nonelective 2-percent contribution to all eligible employees regardless of participation *or* match 100 percent of employee deferrals up to 3 percent of compensation.
- SIMPLE IRAs have a unique two-year rule associated with their distributions and rollovers. They cannot be rolled over to any other retirement account (except another SIMPLE IRA) within the two-year period beginning on the first date of participation in the plan. In addition, IRA owners under age 59½ who distribute within the two-year time frame (in which a premature distribution exception does not apply) will be fined a 25-percent premature penalty instead of the normal 10-percent penalty.
- Loans are not allowed.

SAFE HARBOR 401(k)

Benefits

- This plan has the same features as a traditional 401(k) without the annual nondiscrimination testing.
- Employer contributions are tax-deductible.
- Employees are allowed to contribute.
- Profit-sharing contributions from the employer are allowed.
- Loans are allowed.

Important considerations

- Employer contributions are mandatory. For a 401(k) to be a safe harbor plan, employers must do one of the following:
 - Make a nonelective 3-percent contribution to all employees regardless of participation.
 - Match 100 percent of employee deferrals up to 3 percent of compensation, plus 50 percent of employee deferrals in excess of 3 percent and up to 5 percent of compensation (for a total of 4 percent).
- Although nondiscrimination testing is not required, Form 5500 must still be filed annually.
- Distributions from this plan require a triggering event.

Which plan should you choose?

With so many choices available, it can be difficult to find the right fit. You might start by asking, “What’s most important to me in a retirement plan?” Here are a few examples:

- If low cost and minimal maintenance are priorities for your business, a SEP or SIMPLE IRA would be an appropriate fit.
- If you have highly compensated employees and want to give them the opportunity to maximize their retirement savings, a safe harbor 401(k) would allow for that, as long as you are willing to make the employer match.
- If you are a sole proprietor with no employees and want to maximize your own retirement savings, a SEP IRA could be your best option.

By understanding what each plan has to offer (and what it doesn’t), you’ll be well prepared to make the best choice for your retirement, as well as the retirement of your employees.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

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