

SAN DIEGO BUSINESS JOURNAL

Small Business Help Line

Offering Workers Retirement Plans Can Be SIMPLE

Question: How do I go about offering retirement benefits to my employees?

Answer: For starters, examine the Simplified Employee Pension, or SEP, plan. It's an easy, low-cost retirement plan that allows employers to set aside money in retirement accounts for themselves as well as their employees. Under an SEP, an employer contributes directly to traditional individual retirement accounts for all employees and to themselves. The benefits of the plans are that there are minimum administrative burdens, including few paperwork requirements, as well as the fact that these plans also have a higher

contribution limit when compared with the traditional IRA. This plan offers flexibility to vary your contributions each year.

SEP plans also offer great tax advantages for small-business owners. Contributions are tax deductible and your business pays no taxes on the earnings on the investments. Also, the small-business owner may be eligible for a tax credit of up to \$500 per year for each of the first three years for the cost of starting the plan.

The next thing to consider is the SIMPLE (Savings Incentive Match Plan for Employees of Small Employers) 401(k) plan, which was established in 1997 so

small businesses could have an effective, cost-efficient way to offer retirement planning to their employees. This plan is a cross between the SIMPLE IRA and the traditional 401(k) plan and is available to organizations with fewer than 100 employees. Employees who are age 21 or older and have been employed for at least a year can be eligible to participate in this plan.

Employers have two options for contribution. The first contribution method encourages employee participation by requiring the employer to match all employee contributions up to 3 percent of

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their salaries, with a \$6,000 limit. The second option is a fixed contribution plan. In this case, employers pay a flat 2 percent of the worker's salary. This contribution is required for all participating employees, regardless of whether the employees contribute on their own.

The advantages to the small-business owner of the SIMPLE plan is that it is less expensive compared with the traditional plan and has lower maximum employee contribution limits. The advantage to the employee is that there are mandatory employer contributions, and employer contributions made to the plan are automatically fully vested.

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