

2018

Business Retirement Plan Guide



It's Not How Much You Make, It's How Much You Keep

You started a business to provide for your family and your own long-term financial well-being. One way to both minimize the taxes you pay on your earnings and build retirement assets is to set up a retirement plan for the business.

Whether you are an independent contractor, sole proprietor, or owner of a business with a few or many employees, there are retirement plan options that can benefit you as the business owner, as well as your employees. Most of the tax benefits vary based on income and the type of business sponsoring the plan.

The Benefits of Saving and Investing

Having a retirement plan for your business allows owners and employees a systematic way to accumulate retirement savings. Depending on the type of plan selected, the money can be pre-tax, post-tax, or a combination. It can be contributed by the employees, the employer, or both.

Every plan should offer a variety of investment choices. This allows investment selections to reflect the needs of the individuals. Age, years-to-retirement, accumulated savings, risk tolerance and other factors can determine what is best for each plan participant.

The import issue is to have a plan in place and allow the benefits of savings and investment returns to compound over time. The simple illustration below demonstrates the impact of combining systematic monthly savings and investment returns over time.

Your Monthly Savings	Your Savings Growth in 5 Years*	Your Savings Growth in 15 Years*	Your Savings Growth in 30 Years*
\$100	\$7,808	\$41,792	\$227,933
\$300	\$23,425	\$125,377	\$683,798
\$500	\$39,041	\$208,962	\$1,139,663

*Assuming 10% annual earnings compounded monthly

Source: Department of the Treasury, Internal Revenue Service

Benefits of a business retirement plan can go beyond saving and investing. For the employer, a retirement plan can help attract and retain high-quality employees. Higher employee retention can save the business money through lower recruiting and training costs. Helping employees build financial security can also keep them focused at work

There are also tax benefits for both the employer and employees both at time of contribution and over the life of the plan. Specific tax benefits depend on contribution amounts, plan design, and tax brackets. Some businesses may qualify to receive tax credits and other incentives for starting a retirement plan.

Saving and investing for retirement is necessary because retirement can last for up to 40 years and retirees may need up to 80% of their income to retire comfortably. The average monthly Social Security payment is around \$1,000, so additional savings are necessary for individuals to fund their retirements.

ERISA Allows for Defined Contribution and Defined Benefit Plans

There are two types of pension plans covered by the Employee Retirement Income Security Act (ERISA), defined contribution plans and defined benefit plans. We will explain the features and benefits of both categories of plans, as well as variations of each. The goal is to inform businesses owners of small to mid-sized business on the options they have for structuring retirement plans for them and their employees.

Defined Contribution Plans

A defined contribution plan is an employer sponsored plan in which employees contribute a fixed amount or a percentage of their paychecks into an account that is intended to fund their retirements. The employer can typically match a portion of the employee contributions as an added benefit to attract and retain talent.

The amount available for each employee at retirement varies based on contribution levels and return on the investments selected within the plan.

Popular types of defined contribution plans include IRA-based plans and 401(k)-based plans.

Defined Benefit Plans

A defined benefit plan is an employer sponsored plan designed to provide a fixed, pre-established benefit for employees. These benefits are computed using a formula that considers several factors, such as length of employment and salary history.

The employer typically funds the plan by contributing a regular amount, usually a percentage of the employee's pay, into a tax-deferred account. However, depending on the plan, employees may also make contributions. Upon retirement, the plan may pay out in monthly payments throughout the employee's lifetime or as a lump-sum payment.

Popular types of defined benefit plans include cash balance plans.



Individual Retirement Account (IRA-based) Plans

A great benefit to IRA-based plans is that there is relatively little in the way of administration or tax filing paperwork to deal with. Whether a self-employed or multi-employee company, an IRA-based plan may be a good option.

Payroll Deduction IRA

Employer Advantages: The payroll deduction IRA requires very little from the employer, both in terms of administration and funding. The employer simply arranges for payroll deductions to be made by employees and transmits the contributions to the employees preferred investment vehicle. No tax filing is required.

Employer Disadvantages: By offering such a minimal option to employees, it also restricts the retirement saving opportunities for the employer. The plan is restricted to businesses with 300 or fewer employees that do not have any other type of retirement plan in place.

Employee Advantages: Employees can decide how much to contribute, up to a maximum of \$5,500 in 2018. Participants over the age of 50 can contribute up to an additional \$1,000.

Employee Disadvantages: Contributions are capped at \$5,500 (or \$6,500 for employees over 50). Employees are responsible for all investment decisions. The employer has no obligation to match contributions or contribute to the plan in any other way.

Simple IRA

Employer Advantages: The Simple IRA requires very little from the employer, both in terms of administration and funding. The plan can be set up via IRA Form 5304 SIMPLE or Form 5305 SIMPLE. The employer arranges for payroll deductions to be made by employees and transmits the contributions to the employees' preferred investment vehicle. No tax filing is required.

Employer Disadvantages: Employer must make dollar-for-dollar matching contributions, up to 3% of compensation, or contribute 2% of each eligible employee's compensation up to \$5,500.

Employee Advantages: Employees can decide how much to contribute, up to a maximum of \$12,500 in 2018. Participants over the age of 50 can contribute up to an additional \$6,000.

Employee Disadvantages: Loans are not permitted in a Simple IRA plan. Roth options are not available.

SEP-IRA

Employer Advantages: The SEP-IRA (Simplified Employee Pension) requires very little from the employer, both in terms of administration and funding. The plan can be set up via IRA Form 5304 SIMPLE or Form 5305 SEP. The employer simply arranges for payroll deductions to be made by employees and transmits the contributions to the employees' preferred investment vehicle. No tax filing is required. This plan can be of advantage to the self-employed and freelancers.

Employer Disadvantages: The full burden on contributions is with the Employer only. While the Employer can decide whether to make contributions year-to-year, it must treat all employees equally. This disadvantage can be an advantage to the self-employed, as the contributions are an expense to the business and a generous limit of up to 25% of compensation, up to \$55,000 in 2018 is allowed.

Employee Advantages: For employees with generous employers, a limit of up to 25% of compensation, up to \$55,000 in 2018 is allowed.

Employee Disadvantages: The SEP-IRA does not allow for employee payroll deduction. The employer retains the option of whether to make contributions year-to-year.



401k-based Plans

The 401(k) plan is a tax-qualified, defined contribution pension account that gets its name from subsection 401(k) of the Internal Revenue Code. It requires a greater amount of administrative and tax paperwork as compared to the IRA-based plans, but it allows for the combination of both employee salary contributions and employer contributions.

Safe Harbor 401(k)

Employer Advantages: The Safe Harbor 401(k), as the name implies, allows employers to maximize their own contributions (up to \$18,500 in 2018, plus an additional \$6,000 for employers over the age 50) if they provide a “safe harbor” contribution to all employees. Combined with the company match total contributions can total the lesser of 100% of compensation or \$55,000 in 2018. Employees are incentivized to contribute to the plan to gain any match above the safe harbor minimum. Some employer contributions can vest over time.

Employer Disadvantages: Advice from a financial institution or employee benefit advisor may be needed to set up the plan. Annual filing of IRA form 5500 is required for plans with over \$250,000 in assets. Employers are required to make either specified matching contributions or a 3% contribution to all plan participants.

Employee Advantages: Employees can contribute up to \$18,500 in 2018. Participants over the age of 50 can contribute up to an additional \$6,000. Employees receive the greater of a specified match or the 3% safe harbor contribution. Loans and hardship withdrawals may also be permitted by the plan.

Employee Disadvantages: Vesting schedule may cause forfeiture of some employer contributions if employee leaves prior to vesting.

Automatic Enrollment 401(k)

Employer Advantages: The Automatic Enrollment 401(k) provides a high level of participation and provides safe harbor relief. The plan allows employers to maximize their own contributions (up to \$18,500 in 2018, plus an additional \$6,000 for employers over the age 50) if they provide a “safe harbor” contribution to all employees. Combined with the company match, total contributions can total the lesser of 100% of compensation or \$55,000 in 2018. Employees are incentivized to contribute to the plan to gain any match above the safe harbor minimum. Some employer contributions can vest over time.

Employer Disadvantages: Advice from a financial institution or employee benefit advisor may be needed to set up the plan. Annual filing of IRA form 5500 is required for plans with over \$250,000 in assets. Employers are required to make either specified matching contributions or a 3% contribution to all plan participants.

Employee Advantages: Employees can contribute up to \$18,500 in 2018. Participants over the age of 50 can contribute up to an additional \$6,000. Employees receive the greater of a specified match or the 3% safe harbor contribution. Loans and hardship withdrawals may also be permitted by the plan.

Employee Disadvantages: Vesting schedule may cause forfeiture of some employer contributions if employee leaves prior to vesting.

Profit Sharing

A Profit Sharing Plan permits employers to make large contributions for employees. It can be used along with a 401(k) Plan.

Employer Advantages: The Employer contribution level can be determined year to year, as set by plan terms, and these may vest over time.

Employer Disadvantages: Like the 401(k) Plan, advice from a financial institution or employee benefit advisor may be needed to set up the plan and annual filing of IRA form 5500 is required, but this can be done in conjunction with the existing 401(k) Plan. Employers are required to make either specified matching contributions or a 3% contribution to all plan participants.

Employee Advantages: Contributions are typically based on annual compensation and no employee contributions are required. Loans and hardship withdrawals may also be permitted by the plan.

Employee Disadvantages: Vesting schedule may cause forfeiture if employee leaves prior to vesting.



Defined Benefit Plans

A defined benefit plan is an employer sponsored plan designed to provide a fixed, pre-established benefit for employees.

Employer Advantages: The Employer contribution level can be determined year to year, as set by plan terms, and these may vest over time.

Employer Disadvantages: Like the 401(k) Plan, advice from a financial institution or employee benefit advisor may be needed to set up the plan and annual filing of IRA form 5500 is required, but this can be done in conjunction with the existing 401(k) Plan. Employers are required to make either specified matching contributions or a 3% contribution to all plan participants.

Employee Advantages: Contributions are typically based on annual compensation and no employee contributions are required. Loans and hardship withdrawals may also be permitted by the plan.

Employee Disadvantages: Vesting schedule may cause forfeiture if employee leaves prior to vesting.



Features/Options	Payroll Deduction IRA	SEP-IRA	SIMPLE-IRA	Safe Harbor 401(k)	Automatic Enrollment 401 (k)	401(k)	Profit Sharing	Defined Benefit
Key Advantage	Easy to set up and maintain.	Easy to set up and maintain.	Salary reduction plan with little administrative paperwork.	Permits employee to contribute more than in other options without annual discrimination testing.	Provides high level of participation and permits high level of salary deferrals by employees. Also safe harbor relief for default investments.	Permits employee to contribute more than in other options.	Permits employer to make large contributions for employees.	Provides a fixed, pre-established benefit for employees.
Employers Who Can Provide This Option	Any business with one or more employees.	Any business that does not currently maintain any other retirement plan.	Any business with 100 or fewer employees that does not currently maintain any other retirement plan.	Any business with one or more employees.	Any business with one or more employees.	Any business with one or more employees.	Any business with one or more employees.	Any business with one or more employees.
Employer's Responsibilities	Set up arrangements for employees to make payroll deduction contributions. Transmit contributions for employees to funding vehicle. No employer tax filing required.	May set up plan by completing IRS Form 5305-SEP. No employer tax filing required.	May set up by completing IRS Form 5304-SIMPLE or 5305-SIMPLE. No employer tax filing required.	Advice from a financial institution or employee benefit advisor may be necessary. A minimum amount of employer contributions is required. Annual filing of IRS Form 5500 is required.	Advice from a financial institution or employee benefit advisor may be necessary. Annual filing of IRS Form 5500 is required.	Advice from a financial institution or employee benefit advisor may be necessary. Annual filing of IRS Form 5500 is required. Also requires annual non-discrimination testing to ensure plan does not discriminate in favor of highly compensated employees.	Advice from a financial institution or employee benefit advisor may be necessary. Annual filing of IRS Form 5500 is required.	Advice from a financial institution or employee benefit advisor may be necessary. Annual filing of IRS Form 5500 is required. Actuary must determine funding obligations.
Funding Responsibility	Employee contributions remitted through payroll deduction	Employer contributions only	Employee salary reduction contributions and/or employer contributions	Employee salary reduction contributions and employer contributions	Employee salary reduction contributions and employer contributions	Employee salary reduction contributions and/or employer contributions	Employer contribution level can be determined year to year	Primarily employer; may require or permit employee contributions
Maximum Annual Contribution Per Participant	Up to \$5,500 for 2018. Additional contributions can be made by participants age 50 or over up to \$1,000 per year.	Up to 25% of compensation ¹ or a maximum of \$55,000 in 2018.	Employee: Up to \$12,500 in 2018. Additional contributions can be made by participants age 50 or over up to \$6,000 in 2018. Employer: Either match employee contributions \$ for \$ up to 3% of compensation (can be reduced to as low as 1% in any 2 out of 5 years) or contribute 2% of each eligible employee's compensation up to \$5,500 ² .	Employee: Up to \$18,500 in 2018. Additional contributions can be made by participants age 50 or over up to \$6,000 in 2018. Employer/Employee Combined: Contributions per participant up to the lesser of 100% of compensation ¹ or \$55,000 in 2018. Employer can deduct amounts that do not exceed 25% of aggregate compensation for all participants.	Employee: Up to \$18,500 in 2018. Additional contributions can be made by participants age 50 or over up to \$6,000 in 2018. Employer/Employee Combined: Contributions per participant up to the lesser of 100% of compensation ¹ or \$55,000 in 2018. Employer can deduct amounts that do not exceed 25% of aggregate compensation for all participants.	Employee: Up to \$18,500 in 2018. Additional contributions can be made by participants age 50 or over up to \$6,000 in 2018. Employer/Employee Combined: Contributions per participant up to the lesser of 100% of compensation ¹ or \$55,000 in 2018. Employer can deduct amounts that do not exceed 25% of aggregate compensation for all participants.	Contributions per participant up to the lesser of 100% of compensation ¹ or \$55,000 in 2018. Employer can deduct amounts that do not exceed 25% of aggregate compensation for all participants.	Per plan terms, employer may permit or require employee contribution.
Features/Options	Payroll Deduction IRA	SEP-IRA	SIMPLE-IRA	Safe Harbor 401(k)	Automatic Enrollment 401 (k)	401(k)	Profit Sharing	Defined Benefit

¹ Maximum compensation on which contributions can be based in 2018 is \$275,000.

² Maximum compensation on which employer 2% non-elective contributions can be based in 2018 is \$275,000.

Source: U.S. Department of Labor

Features/Options	Payroll Deduction IRA	SEP-IRA	SIMPLE-IRA	Safe Harbor 401(k)	Automatic Enrollment 401 (k)	401(k)	Profit Sharing	Defined Benefit
Minimum Employee Coverage Requirements	Should be made available to all participants.	Must be offered to all employees who are at least 21 years of age, employed by the business for 3 of last 5 years and earned at least \$600 in a year for 2018.	Must be offered to all employees who have earned at least \$5,000 in previous 2 years, and are reasonably expected to earn at least \$5,000 in the current year.	Generally, must be offered to all employees at least 21 years of age who worked at least 1,000 hours in previous year.	Generally, must include all employees who have not already opted out and those who are at least 21 years of age who worked at least 1,000 hours in previous year.	Generally, must be offered to all employees at least 21 years of age who worked at least 1,000 hours in previous year.	Generally, must be offered to all employees at least 21 years of age who worked at least 1,000 hours in previous year.	Must be offered to all employees at least 21 years of age who worked at least 1,000 hours in previous year.
Withdrawals, Loans and Payments	Withdrawals at anytime; subject to current federal income taxes and a possible 10% penalty if the participant is under age 59 1/2.	Withdrawals at anytime; subject to current federal income taxes and a possible 10% penalty if the participant is under age 59 1/2.	Withdrawals at anytime; subject to current federal income taxes. If employee is under age 59 1/2, may be subject to a 25% penalty if taken within the first 2 years of participation and a possible 10% penalty if taken afterward.	Cannot take withdrawals until a specified event, such as reaching age 59 1/2, death, separation from service or other event as identified in the plan. May permit loans and hardship withdrawals. Withdrawals may be subject to a possible 10% penalty if the participant is under age 59 1/2.	Cannot take withdrawals until a specified event, such as reaching age 59 1/2, death, separation from service or other event as identified in the plan. May permit loans and hardship withdrawals. Withdrawals may be subject to a possible 10% penalty if the participant is under age 59 1/2.	Cannot take withdrawals until a specified event, such as reaching age 59 1/2, death, separation from service or other event as identified in the plan. May permit loans and hardship withdrawals. Withdrawals may be subject to a possible 10% penalty if the participant is under age 59 1/2.	May permit loans and hardship withdrawals. Hardship withdrawals may be subject to a possible 10% penalty if the participant is under age 59 1/2. Payment of benefits generally at retirement.	Payment of benefits generally at retirement, may offer participant loans.
Vesting	Immediate 100%	Immediate 100%	Employee salary reduction contributions and most employer contributions vested 100% immediately.	Employee salary reduction contributions and most employer contributions vest immediately. Some employer contributions may vest over time according to plan terms.	Employee salary reduction contributions vest immediately. Employer contributions may vest over time according to plan terms.	Employee salary reduction contributions vest immediately. Employer contributions may vest over time according to plan terms.	May vest over time according to plan terms.	May vest over time according to plan terms.
Contributor's Options	Employee can decide how much to contribute at any time.	Employer can decide whether or not to make contributions year to year.	Employee can decide how much to contribute. Employer must make matching contributions or contribute 2% of each employee's salary up to the set maximum.	Employees can decide how much to contribute pursuant to a salary reduction agreement. The employer must make either specified matching contributions or a 3% contribution to all participants.	Employees, unless they opt otherwise, must make salary reduction contributions specified by the employer. The employer can make additional matching contributions as set by plan terms.	Employees can decide how much to contribute pursuant to a salary reduction agreement. The employer can make additional contribution, including matching contributions as set by plan terms.	Employer makes contribution as set by plan terms.	Employer makes contributions as set by plan terms.
Features/Options	Payroll Deduction IRA	SEP-IRA	SIMPLE-IRA	Safe Harbor 401(k)	Automatic Enrollment 401 (k)	401(k)	Profit Sharing	Defined Benefit

Source: U.S. Department of Labor

About the authors

NovaPoint Capital is an investment management and advisory firm. We provide fiduciary and investment advisory services to ERISA qualified plans such as SEP/IRA, 401(k), Profit Sharing and Defined Benefit for small to mid-sized businesses. We currently manage business retirement plans between 1 and 150 employees.



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan also worked in the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher. Alan is a Certified Plan Fiduciary Adviser (CPFA). He is able to serve as a plan fiduciary and adviser to plan sponsors.

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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta and Epoch Investment Partners in New York. He also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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