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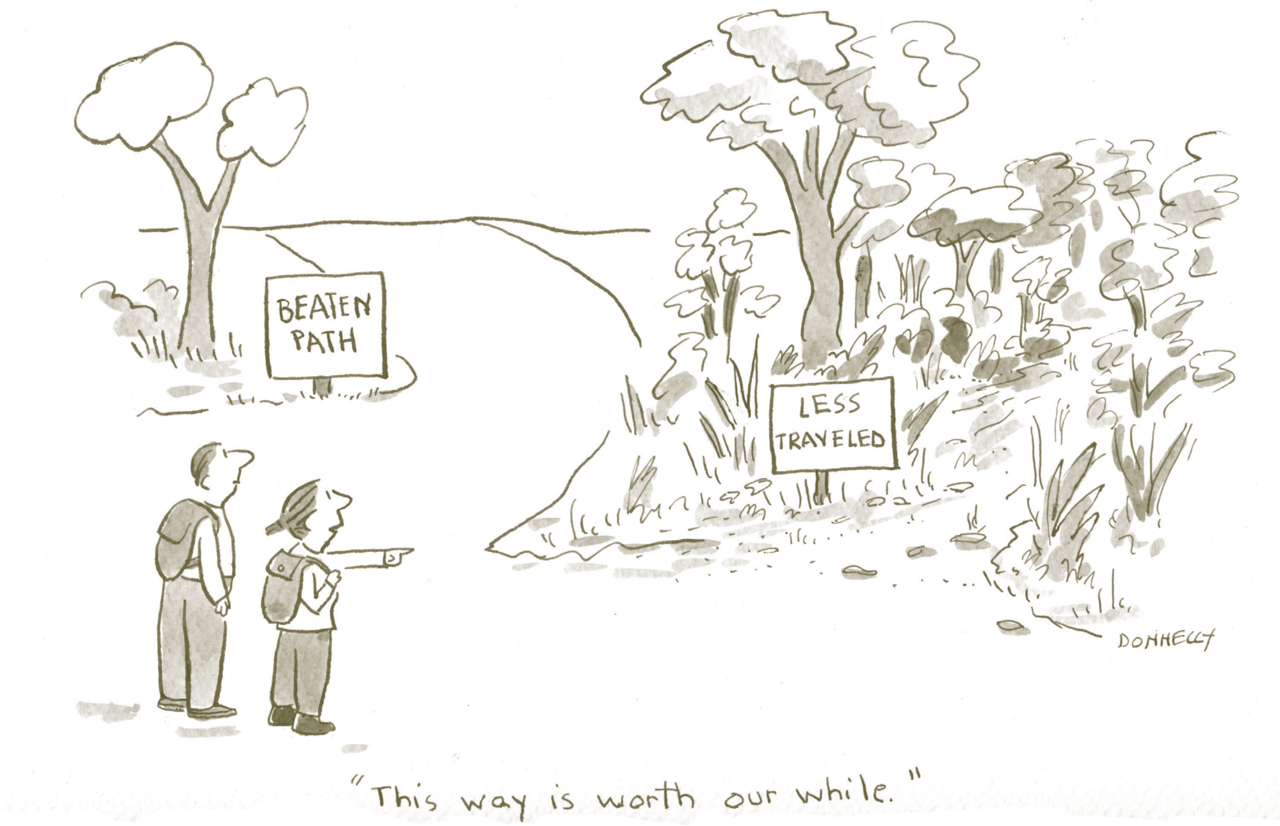
Retirement Plans for Small Businesses



As a small business owner, you may want to offer your employees (and yourself) a vehicle for retirement savings but don't know where to start. You may have heard that retirement plans are too expensive for small businesses; perhaps you don't have the HR team you feel is necessary to handle it, and if you do start one, you worry that you will be a small fish in a big sea. These are common concerns shared by many small business owners.

Luckily, there are several options available to you and your company. RMB Capital has a Retirement Plan Solutions (RPS) team that is made up of experts in corporate retirement plans and can help you identify the benefits of a retirement plan and evaluate the different types of options.

A small business retirement plan has benefits for you, your employees (if you have any), and your business.

Start Saving for Retirement—Many small business owners either delay or entirely avoid saving for retirement due to their focus on the business. By starting to save earlier, you have more time to accumulate investment earnings and take advantage of the stock market. »

Defer Taxes—Retirement plans offer tax-deferred growth on earnings, and any employer contributions will be treated as tax-deductible business expenses. Many plans also allow you to defer taxes on your contributions, which provides additional tax benefits.

Investment Growth—Your plan contributions will grow on a tax-deferred basis, and any interest, dividends, or capital gains will be reinvested in your account. This allows you to generate earnings on top of earnings (compound growth).

Attract and Retain Employees—Offering a retirement plan for your employees can ensure you offer a competitive benefits package and help your business flourish.

What plan types should small businesses be evaluating?

For small businesses with only partners/owners and no employees, the best options are a solo 401(k) or solo defined benefit plan. The 401(k) can allow you to save as much as $58,000 annually, or $64,500 if you're over age 50. If you would like to save more than this, it often makes sense to consider a solo defined benefit plan, as it will allow you to save above and beyond the 401(k) limits (defined benefit limits are based on annual earnings, age, and other factors).

For small businesses with employees, there are many other options to consider, and some of the most popular options are outlined below.

401(k) Plan—This is the most popular plan offered by employers today. 401(k) plans allow participants to save money from their own pay on a pre-tax or Roth basis. They also have the option to allow the employer to make matching or profit-sharing contributions on behalf of employees.

Cash Balance Pension Plan—Cash Balance Plans are pension plans, so all contributions and investment decisions are made by the employer. These plans can be designed to provide large benefits to owners or key employees, all while minimizing benefits to other employees to help control costs. This is a great way to help a small business owner who has delayed saving for retirement make larger contributions so they can quickly accumulate assets for retirement. All the contributions to this type of plan are tax-deductible business expenses, so we often find the tax savings can help cover some of the contribution costs for other employees.

Nonqualified Plan—Nonqualified plans are not subject to the same nondiscrimination requirements as 401(k) plans, so there is much more flexibility in designing the plan to determine who receives benefits. In most cases, these plans are used to only provide benefits to owners or key employees. These plans are sometimes referred to as "golden handcuffs," as they can be used to help retain key employees until benefits become vested.

Retirement plans are complicated and can create risk for plan fiduciaries, so it's important to work with a co-fiduciary advisor. They will help design a plan to best meet your specific needs and to manage risk. A co-fiduciary advisor is required by law to put your participants' best interests first when making recommendations. They will also monitor investments, implement a governance process to help you fulfill your fiduciary requirements, provide professional advice to plan participants, and renegotiate fees with providers as your plans grow. Many retirement plan advisors don't take on any fiduciary liability, so make sure you understand the role your advisor plays and what liability they assume.

If you need help evaluating the best plan for your situation, or if you want to review your current plan, the Retirement Plan Solutions team at RMB is here to help. This whole process requires very little time and can lead to meaningful improvements for your plan and its participants. ■