

Yes, You Can Run A Business and Retire Someday

As a small business owner, planning for retirement may be the last thing on your mind. Your day-to-day duties may keep you too busy to consider any time frame beyond 5 P.M. on Friday. You may also think that a company-sponsored retirement plan is out of your—and your employees'—reach right now.

Put away your dreams of retiring on the proceeds when your company is acquired for a moment. Thanks to the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), small businesses that were previously reluctant to start a company retirement plan now have very few excuses not to establish one—and can reap the benefits!

The Benefits of a Well-Considered Plan

Setting up a retirement plan program is not as expensive as you may think. There are tax benefits involved. And, perhaps most important, a retirement plan is a low-cost way to keep the employees you have and to attract needed talent. In a small operation, generally defined as fewer than 100 employees, even one defection can be a tremendous setback.

You get a tax credit. Small business owners that set up a new retirement plan receive a \$500 credit against the first \$1,000 of their qualified startup costs for the plan's first three years. Consider that it typically costs a company with fewer than 50 employees less than \$2,100 to set up a typical 401(k) plan and the decision makes even more sense. (Annual account maintenance fees, which are usually \$25 per employee, can be passed on to them.)

You get a tax deduction. Under the EGTRRA, the tax deduction for employers making contributions to an employee retirement plan increases from 15 to 25%, and pre-tax salary deferrals are not included in this amount.

You can play catch up. The EGTRRA increases the amount of pre-tax earnings people can save in their qualified retirement plans. For 2006, that figure is \$15,000. At that point, it will be indexed in \$500 increments for inflation thereafter. Employees over age 50 are even allowed additional catch-up contributions of \$5000 in 2006 and adjusted thereafter, per year if they have fallen behind on their retirement savings.

Unfortunately, time is, as they say, of the essence. Because Congress is afraid it might have given away the store to taxpayers and will potentially bankrupt the nation's coffers, the EGTRRA is set to sunset—or terminate—at the end of 2010, at which point the laws will revert to the pre-Act levels of 2001 if no further legislation is made.

Okay, But Where Do I Begin?

The first step, of course, is to determine what retirement plan makes the most sense for your business. Your insurance company, accountant or financial advisor should be able to help you make a decision and set one up for you.

The granddaddy of retirement plans is the **401(k)**, which can be funded exclusively through employees' pre-tax contributions. However, there are other options to consider.

Most small operations lean toward a **Savings Incentive Match Plan for Employees** (SIMPLE plan), which comes in 401(k) and IRA varieties. With a SIMPLE plan,

employees can elect to contribute up to \$10,000 of their salaries each year. As the employer, you match the employee's contribution dollar-for-dollar, maxing out at 3% of the employee's salary.

It sounds expensive, but if an employee opts not to participate, you don't have to contribute anything for that employee. And you don't need to deposit your contribution into your employees' accounts until your tax return is due. Owners are considered employees; contributions are fully vested and grow tax-deferred.

A small company with highly compensated employees or an operation employing only its owner may be best served by a **Simplified Employee Pension plan**, or SEP-IRA. With this plan, you contribute no more than 25 percent or \$42,000 of the employee's compensation, whichever is less, to an employee's IRA. Employees themselves cannot contribute. The contribution to your own plan is based on your net self-employment income after your contributions to the employees' accounts. Again, contributions are fully vested and grow tax-deferred.

Keogh plans only work for sole proprietors, partnerships, or unincorporated businesses. Your contributions to the plan can only come from the proceeds of your business. You can deduct these contributions, up to \$42,000, to lower your tax bill.

Invest in Your Future Today

Certainly, you have a number of options to consider. But consider them soon, even if you think you're too busy to plan now. Investing in your employees' future is just as much an investment in your company, as employees will see that you are responsive to their needs. Just think of how much time you'll have on your hands during your retirement to regret not having been more proactive. The less you put away for retirement now, the longer you'll have to work to reach your goal. And wasn't having that freedom to do what you want one of the reasons you became your own boss to begin with?

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