STA WEALTH MANAGEMENT

By Jennie L. Phipps
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Like almost everything else, setting up a retirement savings plan falls on the shoulders of a small business owner.

The plan you choose depends on the size of your business, how it is structured and how much money you think you can afford to put aside. Self-employed individuals can take advantage of the fact that they're considered both employer and employee.

Here are 6 basic types of small business retirement plans to consider:

1. MyRA -- the federal government plan that invests in government bonds.
2. Simplified Employee Pension Plan, or SEP-IRA.
3. Savings Incentive Match Plan for Employees -- SIMPLE IRA.
4. Savings Incentive Match Plan for Employees -- SIMPLE 401(k).
5. One-participant or solo 401(k) plan.
6. Defined-benefit plan.

MyRA

Roth IRA that invests in government bonds

- Contribution limits: $5,500.
- No-hassle plan for employers.

The MyRA is as simple as it gets. The minimum deposit is $25 per employee, and you or your employees can contribute as little as $5 per pay period. There is no cost to employers. They don't administer employee accounts, nor do they contribute to them or match employee contributions. The government provides all the materials you need to explain how it works to employees.

The accounts are Roth IRAs, which means contributions are made with after-tax dollars. The money earns a guaranteed return equal to that of the "G" fund in the government's Thrift Savings

Plan, currently 1.875%. Savers can contribute up to $5,500 per year, or $6,500 if they are age 50 or older. Money contributed can be withdrawn at any point without taxes or penalties.

Participants can accumulate no more than $15,000. After that, the money must be rolled over into a privately held Roth IRA.

SEP-IRAs

Simplified Employee Pension Plan

- No government filings.
- Contributions only from employer.
- For sole proprietors, partnerships, corporations.

All contributions for Simplified Employee Pension plans, or SEPs, are made by the employer. "You have to make the contributions for everyone. You can't exclude any employee. It's all for one and one for all," says Dara Luber, senior manager for retirement at TD Ameritrade.

That can be a plus for very small or owner-only businesses, she says, because it can allow you to put aside a lot of money with very little expense or paperwork, since you don't have to file anything with the government.

The maximum contribution can't exceed the lesser of:

- $53,000 for the 2015 and 2016 tax years.
- 25% of the employee's net compensation.

For self-employed individuals, the IRS defines compensation as your net earnings from self-employment, reduced by one-half of your self-employment tax and by your entire SEP-IRA contribution, up to a compensation limit of $265,000 for 2015 and 2016.

Besides the SEP-IRA contribution made by the employer, employees can also save, in their own IRAs, up to $5,500 for the 2015 and 2016 tax years, or $6,500 if age 50 or older. If you are an owner-only business, you can save both ways -- a great way to maximize your retirement savings while lowering your taxes.

Sole proprietors, partnerships and corporations, including S corporations, can set up SEP-IRAs. A small company may be eligible for a $500 tax credit for 3 tax years to offset startup costs.

You don't have to contribute every year. "If you are having a down year, you can contribute a small amount or not at all. But if you are having a great year, you can contribute a lot," Luber says. "SEP-IRAs are very flexible in that way."

SIMPLE IRA

Savings Incentive Match Plan for Employees

- Employers must contribute annually.
- Employees can contribute $12,500.
- $3,000 catch-up contributions allowed.
- For small companies with

For

- Small companies.

The Savings Incentive Match Plan for Employees of Small Employers, or SIMPLE IRA, could be a great choice if you want to contribute to a retirement plan and you have a small company -- fewer than 100 employees.

- An employee may choose to contribute, but an employer must contribute annually.
- An employee can contribute up to $12,500 in 2015 and 2016. Those 50 and over can make a catch-up contribution of $3,000 in 2015 and 2016.

The employer can participate in 1 of 2 ways. He or she can choose to match each employee's contributions dollar-for-dollar, up to 3% of the employee's compensation. If the employer has a lousy year, the matching contribution can be reduced to less than 3%, but the contribution must be at least 1% and this haircut is only allowed in 2 out of 5 years.

Alternatively, an employer can make a 2% contribution of total compensation for each eligible employee up to a cap in 2015 and 2016 of $265,000. Under this option, employees don't have to contribute anything but they can -- up to the employee contribution limits stated above.

CFP professional Scott A. Bishop, director of Financial Planning for STA Wealth Management, says the best thing about a SIMPLE from the point of view of an employer is its simplicity. An employer who wants to contribute to his employees' retirement but is discouraged by the cost and paperwork associated with a 401(k) can avoid both. "I'd rather give my employees $2,000 than pay an actuary to figure out the annual filing" for a defined benefit plan or a conventional 401(k), he says.

SIMPLE 401(k)

Savings Incentive Match Plan for Employees

- Similar setup as SIMPLE IRA.
- Can allow loans from the plan.
- For small companies with

The SIMPLE IRA has a first cousin, the SIMPLE 401(k). The contribution rules are similar. In both cases, the plans aren't subject to the non-discrimination income tests that apply to regular 401(k) plans, and employees are fully vested immediately for all contributions.

The biggest difference, Bishop says, is that SIMPLE 401(k)s can allow loans from the plan, an option some small business owners may find attractive.

For small businesses where nobody earns much more than about $50,000 a year, the contribution limits on SIMPLE plans are high enough. "They are good for moderate income people because they won't max out the other options anyway," Bishop says.

Solo 401(k) plan

One-participant 401(k)

- Contributions can't exceed $53,000.
- For self-employed, owner-only businesses and partnerships.
- Must file paperwork once assets reach $250,000.

The best thing about a one-participant or Solo 401(k) is that you can maximize contributions if your income is too low to allow you to get the most out of a SEP-IRA plan, says Brian Hogan, director retirement products and services for Fidelity Investments. For example, you have to earn a lot to contribute the maximum $53,000 to a SEP IRA; conversely you can earn less and still contribute more to a 401(k) plan.

The Solo 401(k) works like this:

As both employer and employee, a business owner can contribute both:

- Elective deferrals up to 100% of "earned income" up to the annual contribution limit, which is $18,000 in 2015 and 2016, or for those age 50 or older, $24,000;
- 25% of compensation, which the IRS defines as net earnings from self-employment minus one-half of your self-employment tax and minus the contributions you make to your retirement plan.

Total contributions cannot exceed $53,000 for 2015 and 2016.

"The Solo 401(k) has few downsides," Hogan says. "The paperwork and costs are very limited. When your savings reach $250,000, you do have to file a Form 5500 annually, but that's not burdensome."

Self-employed individuals and owner-only businesses and partnerships are eligible. Owners' spouses also may participate.

Look for an administrator that doesn't charge a setup or management fee.

"The Solo 401(k) is a very powerful savings vehicle and a great way to maximize retirement savings," Hogan says.

Defined benefit plans

Fixed benefits tied to tenure and salary

- Generous contribution limits.
- Enrolled actuary determines funding levels.
- Must file annually with government.
- Employer assumes all investment risk.

Of all the small business retirement plans available, the old-fashioned defined benefit retirement plan may be the best for ensuring a comfortable old age.

Defined benefit plans provide a fixed benefit generally tied to tenure and salary for employees at retirement. The employer bears all investment risk. These plans are especially advantageous for high-income professionals who can afford the costs to both set up and administer them.

The most likely participants are doctors, dentists, lawyers, accountants and consultants in partnerships, family businesses or other small entities. It can also be an attractive option for a couple when one is a high earner with a good corporate retirement plan and the other is self-employed and makes an income that the couple doesn't really need. Retired professionals earning money as consultants also find them an attractive way to shelter income or as part of an estate-planning strategy.

The annual benefit for a participant is limited in 2015 and 2016 to the lesser of:

- 100% of the participant's average compensation for his or her highest 3 consecutive calendar years, or
- $210,000.

"These provide a wonderful way to take a lot of money out of the business and shelter it from taxes," says Karen Shapiro, CEO of Dedicated Defined Benefit Services, which sets up and manages these plans for clients. "You are going to save 40% or more in taxes on the money you are putting in the plan."

The plans can be designed as either a traditional pension equity plan or as a cash balance plan. In either case, the employer funds and manages the whole thing. The cash balance option is very popular with small companies because they allow for varying levels of contributions for employees -- more for the owner, less for his assistant, Shapiro says.

In either case, you can choose to turn the balance into an annuity at retirement or you can roll the money into an IRA. "Almost no one chooses to annuitize," she says.

These plans are not suitable for do-it-yourselfers. You'll need an enrolled actuary to determine the funding levels needed to create the defined benefit, and to annually file a Form 5500 with a Schedule B.

This makes these plans costly. Shapiro, for instance, charges about $2,000 a year in management fees. But if you can afford one, this plan provides a hard-to-beat retirement nest egg.