



RETIREMENT PLANS FOR THE SMALL BUSINESS OWNER

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The primary savings goal for most investors today is retirement. With the decrease in the number of companies offering guaranteed pensions and concerns about the solvency of social security, the thought of saving enough money to sustain your current lifestyle for a long retirement can be daunting. Most of the clients we work with at Cabot are familiar with the

traditional IRA and Roth IRA as retirement savings vehicles. While both are excellent options, the IRS has given small business owners and sole proprietors better ways to save and added additional tax benefits as well. In fact, there are now a myriad of options available to the small business owner. I've outlined the four most commonly used vehicles.

SEP IRA

A SEP allows a business owner to contribute a portion of the company profits to each employee (and themselves, of course). These contributions are based on a percentage of each employee's earned income. The maximum contribution for 2010 is \$49,000, and all contributions grow tax-deferred until they are withdrawn at retirement. All

plan contributions can be taken as a tax deduction to the business, thereby lowering taxable income.

SIMPLE IRA

A SIMPLE IRA gives each employee the option to defer a portion of their own salary before tax (up to \$11,500 in 2010) into a tax-deferred savings vehicle. Participants over the age of 50 can contribute an additional \$2,500 per year. The company owner is then required to match up to 3% of the employee's compensation. As with a SEP, the employer contribution is tax-deductible. While the contribution limits are not as high as the SEP, the SIMPLE IRA is a great solution for companies with employees that want to save a portion of their own income for retirement.

INDIVIDUAL 401(k)

The Individual 401(k) is designed to help sole proprietors (and their spouses) save more for retirement. Contributions are based on a percentage of income, and in 2010 each participant can save up to \$49,000 in the plan (those over the age of 50 can contribute an additional \$5,500 in 2010). These contributions grow tax-deferred until they are withdrawn for retirement and a portion of the contribution can be used as a tax deduction for the business. The Individual 401(k) is only appropriate for a sole proprietor with no plans to add additional employees. The biggest advantage of the Individual 401(k) over the SEP is that it allows the business owner to reach the maximum contribution level (\$49,000) at a lower level of income.

DEFINED BENEFIT PLAN

Defined Benefit plans offer business owners the opportunity to save significantly more than in the SEP, SIMPLE or 401(k) plans. With a DB plan, the contributions are based on a projected retirement "benefit". In other words, you decide how much income you want at retirement (up



to the 2010 benefit maximum of \$195,000), and an actuary determines how much you need to contribute to the plan each year. The DB plan is a great savings tool, but a business owner must make contributions on behalf of their employees as well. Many firms now offer solo DB plans, designed specifically for self-employed individuals with no employees (other than a spouse).

Defined Benefit plans can be more costly to implement and administer than other retirement plans. A plan sponsor needs to engage an actuarial firm to create the plan document and calculate the contribution amounts. It is also worth contacting an investment advisor to assist with the management of the DB portfolio. There are specific guidelines and restrictions set forth by the IRS and Department of Labor that need to be followed in order to keep the plan in "good standing".

CONCLUSION

Finding the right plan is a critical piece of the retirement savings puzzle. Company-sponsored retirement plans offer the benefits of tax-deferred growth, tax-deductible contributions and high contribution limits. At Cabot, we can help determine the most appropriate plan for your

business. Perhaps one of the first three listed will suit your needs. If not, more sophisticated options such as Defined Benefit plans, Deferred Compensation plans, or a New Comparability Plan may be necessary. The decision about which plan to choose will be made within the context of each client's overall goals. Our team of financial counselors works with clients to develop a comprehensive financial plan that takes into account all aspects of their financial situation. Please feel free to contact us with any questions about your existing retirement plan or for help with implementing a new plan.



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