

Which Retirement Plan Is Right for Your Business?

If you own a small business, there are many retirement plan alternatives available to help you and your eligible employees save for retirement. For most closely-held business owners, a Simplified Employee Pension Individual Retirement Account (SEP IRA) was once the most cost-effective choice. Then the Savings Incentive Match Plan for Employees (SIMPLE IRA) became a viable alternative. Today you may find that a defined benefit or 401(k) plan best suits your needs. To make an informed decision on which plan is right for your business, review the differences carefully before you choose.

Simplified Employee Pension Individual Retirement Account (SEP IRA). This plan is flexible, easy to set up, and has low administrative costs. An employer signs a plan adoption agreement, and IRAs are set up for each eligible employee. When choosing this plan, keep in mind that it does not allow employees to save through payroll deductions, and contributions are immediately 100% vested.

The maximum an employer can contribute each year is 25% of an employee's eligible compensation, up to a maximum of \$265,000 for 2016. However, the contribution for any individual cannot exceed \$53,000 in 2016. Employer contributions are typically discretionary and may vary from year to year. With this plan, the same formula must be used to calculate the contribution amount for all eligible employees, including any owners. Eligible employees include those who are age 21 and older and those employed (both part time and full time) for three of the last five years.

Savings Incentive Match Plan for Employees (SIMPLE). If you want a plan that encourages employees to save for retirement, a SIMPLE IRA might be appropriate for you. In order to select this plan, you must have 100 or fewer eligible employees who earned \$5,000 or more in compensation in the preceding year and have no other employer-sponsored retirement plans to which contributions were made or accrued during that calendar year. There are no annual IRS filings or complex paperwork, and employer contributions are tax deductible for your business. The plan encourages employees to save for retirement through payroll deductions; contributions are immediately 100% vested.

The maximum salary deferral limit to a SIMPLE IRA plan cannot exceed \$12,500 for 2016. If an employee is age 50 or older before December 31, then an additional catch-up contribution of \$3,000 is permitted. Each year the employer must decide to do either a *matching contribution* (the lesser of the employee's salary deferral or 3% of the employee's compensation) or *non-matching contribution* of 2% of an employee's compensation (limited to \$265,000 for 2016). All participants in the plan must be notified of the employer's decision.

Defined benefit pension plan. This type of plan helps build savings quickly. It generally produces a much larger tax-deductible contribution for your business than a defined contribution plan; however, annual employer contributions are mandatory since each participant is promised a monthly benefit at retirement age. Since this plan is more complex to administer, the services of an enrolled actuary are required. All plan assets must be held in a pooled account, and your employees cannot direct their investments.

Certain factors affect an employer's contribution for a plan, such as current value of the plan assets, the ages of employees, date of hire, and compensation. A participating employee with a large projected benefit and only a few years until normal retirement age generates a large contribution because there is little time to accumulate the necessary value to produce the stated benefit at retirement. The maximum annual benefit at retirement is the lesser of 100% of the employee's compensation or \$210,000 per year in 2016 (indexed for inflation).

401(k) plans. This plan may be right for your company if you want to motivate your employees to save towards retirement and give them a way to share in the firm's profitability. 401(k) plans are best suited for companies seeking flexible contribution methods.

When choosing this plan type, keep in mind that the employee and employer have the ability to make contributions. The maximum salary deferral limit for a 401(k) plan is \$18,000 for 2016. If an employee is age 50 or older before December 31, then an additional catch-up contribution of \$6,000 is permitted. The maximum amount you, as the employer, can contribute is 25% of the eligible employee's total compensation (capped at \$265,000 for 2016). Individual allocations for each employee cannot exceed the lesser of 100% of compensation or \$53,000 in 2016. The allocation of employer profit-sharing contributions can be skewed to favor older employees, if using age-weighted and new comparability features. Generally, IRS Forms 5500 and 5500-EZ (along with applicable schedules) must be filed each year.

Once you have reviewed your business's goals and objectives, you should check with your Financial Advisor to evaluate the best retirement plan option for your financial situation.

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