Retirement Benefits: How to Get Started

Which plan is the best option for my business?

When thinking about adopting a retirement plan for your business, it's useful to consult a tax or retirement plan professional who can assist you with finding a plan that suits your needs. You can also get started by acquainting yourself with retirement options popular among small businesses. While many employers believe retirement plans are too complicated or costly to fit their business, there are a number of very simple and low-cost options available to your business—and many come with significant benefits to you personally.

Small business owners like you can access a variety of retirement savings options, many of which are easy to set up and require minimal (if any) financial contributions and management on your part. Employers can choose how much they want to contribute—if at all—to their employees' plans. To start, it's helpful to think through a few key issues. Consider asking:

- **How important is long-term savings to my employees?** When considering adopting any new benefits option, it's important to focus on what matters to your staff. You could conduct a formal or informal survey of employees to see if setting up a retirement plan is a priority for them.
- **Which is a greater priority: higher contributions or hassle-free administration?** Some retirement options allow for easy in-house oversight and management. The downside to these plans, however, is that the contribution limits are lower, meaning you and your workers won't be able to save as much every year. Plans with higher contribution rates generally come with more legal compliance issues, paperwork, and ongoing oversight, as this example small business plan comparison guide from Fidelity shows. If you know how much administration you can handle, you can more easily identify an appropriate option for you and your employees.
- **Can I afford to make contributions on behalf of my employees, or would I prefer to encourage them to make contributions on their own?** Even without making contributions to employee retirement savings, you can still encourage your employees to save for the future by helping them set up their own retirement savings accounts.
- **How much will my employees and I need to save for retirement?** When deciding on a plan, it's important to consider options that allow you and your employees to save the most money now to build a sound financial future in retirement. This easy-to-use Lifetime

Income Calculator from the U.S. Department of Labor (DOL) Employee Benefits Security Administration (EBSA) helps determine how much you and your employees can set aside from your earnings each year before retiring.

Before getting into the available options, you can narrow down your choices by identifying which example below best matches your situation:

I am a small and/or new business with few resources for managing a retirement plan, but I still want to encourage saving for retirement.

An IRA-based plan might be the right option for you. Requiring relatively little administration and low set-up fees, IRA-based plans put the responsibility for saving on your employees, while granting them the freedom and flexibility to save at a rate that makes sense for them. The simplest type of IRA, a payroll deduction IRA, doesn't even require you to make contributions on behalf of your employees. The other two popular options—SIMPLE IRAs and Simplified Employee Pensions—require you to contribute to your workers' plans every year, but also grant you the option to write off those costs as business expenses on your taxes.

I have a larger or more established business and want to attract top talent and invest more in my employees' (and my own) future.

Consider adopting a defined contribution plan—the most prevalent type of all employer-sponsored retirement plans. These plans require more ongoing maintenance and costs to set up in consultation with a third party financial institution. The main advantage of defined contribution plans, such as traditional 401(k) plans, is the higher contributions employees and employers are allowed to make each year. These plans are generally more enticing for workers than IRAs, as the employer handles set-up and management, while granting employees flexibility to contribute the amount that's best for them. Popular defined contribution plan options for small businesses are Traditional 401(k), SIMPLE 401(k), and Solo 401(k). And remember: the additional Startup Costs tax credit is worth up to $500 for the first three years, potentially offsetting administrative expenses significantly.

Here are two common choices:

Common Defined Contribution Plans

	TRADITIONAL 401(K)	SIMPLE 401 (K)	SOLO 401(K)
ELIGIBILITY	Any size business.	Small businesses with fewer than 100 employees that do not offer any other retirement plan.	Business owners with no common-law employees (and spouse, if desired).
WHO CAN CONTRIBUTE	Employers and employees	Employers and employees	Employer
MANDATORY EMPLOYEE CONTRIBUTION?	No, employer contributions are optional and can vary year-to-year.	Yes, matching contributions dollar- for-dollar, up to 3% of employee annual compensation; in the case of non-elective contributions, employer contributes 2% of employee annual compensation.	Yes, account owner in this case is both employee and employer, and can make contributions in both capacities.
CONTRIBUTION LIMIT (2019)	$19,000 (additional catch-up contributions of $6,000 allowed for employees age 50 or older).	$13,000 (additional catch-up contributions of $3,000 allowed for employees age 50 or older).	$19,000 ($25,000 for individuals age 50 or older); can also combine with employer non-elective contributions of up to 25% of annual compensation. (For self-employed individuals, the IRS has specific guidance.)
MAIN ADVANTAGE	High contribution rates and option to withdraw funds or take out loans if unexpected financial needs arise before retirement.	Simple to operate and not subject to non-discrimination testing.	High contribution rates (potentially higher than under the other main option for self-employed individuals, a SEP).

	TRADITIONAL 401(K)	SIMPLE 401 (K)	SOLO 401(K)
MAIN DISADVANTAGE	401(k) plans tend to have higher costs per employee per year than SEP or SIMPLE IRAs ($60-$100/employee for a 401(k) per year vs.$20-$25/employee for an IRA.		
	Higher administrative costs compared to IRA-based plans; can require non-discrimination testing.	Employee option to withdrawal or borrow money from the account could add administrative burden to employer.	Once employees are hired and meet plan eligibility requirements, plan must be extended to them.

Common IRA-Based Plans

	SIMPLIFIED EMPLOYEE PENSION (SEP)	PAYROLL DEDUCTION IRA	SIMPLE IRA
ELIGIBILITY	Any size business.	Any size business.	Small businesses with fewer than 100 employees that do not offer any other retirement plan.
WHO CAN CONTRIBUTE	Employers only	Employees (through payroll deduction)	Employers and employees (through payroll deduction).
MANDATORY EMPLOYEE CONTRIBUTION?	Yes, but amounts can vary year- to-year, according to employer's preference.	No, employer contributions not permitted.	Yes, matching contributions dollar-for-dollar, up to 3% of employee annual compensation; in the case of non-elective contributions, employer contributes 2% of employee annual compensation.

	SIMPLIFIED EMPLOYEE PENSION (SEP)	PAYROLL DEDUCTION IRA	SIMPLE IRA
CONTRIBUTION LIMIT (2019)	25% of net earnings, up to $56,000	$6,000 ($7,000 for individuals age 50 or older)	$13,000 ($16,000 for individuals age 50 or older)
MAIN ADVANTAGE	Easy setup and low (sometimes free) operating costs. Tend to be low cost, at about $20/employee per year.	No required employer contributions and overall simplicity. (The IRS calls this "probably the simplest retirement arrangement that a business can have.")	Easy setup and operation: no filing requirements or non-discrimination testing. Low cost for small businesses, at $20-$25/employee per year (with a potential one-time setup fee).
MAIN DISADVANTAGE	Can become expensive due to requirement that you contribute the same percentage for each eligible employee, including yourself as the owner.	No tax deduction for the business owner.	Required and inflexible employer contributions.

A third option is defined benefit plans, typically known as pensions, which guarantee employees a predetermined amount of income in retirement that usually depends on a combination of the employee's salary and the number of years they worked for the company. These plans are much more challenging to manage and are pretty uncommon among small businesses.

Which legal issues should I be aware of?

Am I required by law to offer retirement plans for my employees?

No. Businesses are not legally mandated to offer retirement savings plans to their employees, though millions of business owners choose to do so to remain competitive among their peers and to attract and retain the best workers.

With that said, we encourage you to keep an eye on any new legislation in your state. Some states, including California, Connecticut, Illinois, Maryland, New Jersey, Oregon, Washington, Vermont, among others, have established (or are in the process of creating) state-sponsored individual retirement plans for workers. Under these programs, individuals without access to a retirement plan through their employer could be automatically enrolled in a low-cost state-sponsored plan, with your business acting as the plan facilitator. The new programs have come under scrutiny at the federal level, in many cases causing delays in implementation at the state level. You're encouraged to stay up-to-date on the status of programs in your area, for instance by consulting the Pension Rights Center or AARP.

In California

CalSavers

CalSavers is California's state-sponsored retirement option for California workers. The program was designed as a no-cost IRA and low-burden way for businesses to offer employees a retirement savings plan. Enrolling in CalSavers includes four steps: adding delegates or payroll representatives to manage the account, setting up a payroll list, adding employee information so they can manage their savings, and sending contributions as part of the business' payroll process. The only ongoing maintenance that's required for businesses is submitting employees' contribution amounts and adding new employees or removing employees who have left the company. The CalSavers website provides more information about what employers can expect from the program.

California law requires that businesses, who don't already offer an employer-sponsored retirement plan and who have five or more employees, begin facilitating CalSavers. The three-year phased rollout includes staggered deadlines for registration based on employer size as described below.

- For eligible employers with more than 100 employees, June 30, 2020.
- For eligible employers with more than 50 employees, June 30, 2021.
- For eligible employers with five or more employees, June 30, 2022.

Which laws apply when offering a retirement plan for workers and myself?

While there is no law mandating that you offer retirement benefits, employers who do are subject to regulations regarding implementation and oversight. We advise you to consult with a retirement broker or legal advisor before adopting a plan.

Which tax incentives can offset the cost of adopting and managing a plan?

The basic advantage of an IRS-approved retirement program—aside from building wealth over time—is that it comes with some helpful tax benefits. In most cases, approved plans are "tax-advantaged," meaning that you or your employees can make contributions tax- free. Taxes are charged when individuals withdraw their savings from their account at retirement (and while some plans allow for earlier withdrawals, these usually come with a penalty fee). Roth Individual Retirement Accounts (or Roth IRAs) are one major exception: under these plans, individuals' contributions to their retirement funds are taxed upfront, and not when the money is withdrawn at retirement. While these incentives rarely change, the IRS can alter the limit on how much money can be contributed to a retirement account tax-free (for more on these limits, see the tables below).

In addition to tax-free contributions, a number of other helpful tax benefits make retirement accounts a smart investment for you and your business, including those laid out in the table below:

TAX INCENTIVE	WHO'S ELIGIBLE
Tax-Deductible Employer Contributions. To incentivize and make it easier for employers to help their workers save, the IRS allows business owners to deduct the cost of their yearly contributions to qualified employee retirement plans from their business taxes, up to a certain amount each year. Check the IRS website for annual updates on contribution and deduction limits under various plan types.	All employers who contribute to employee retirement plans qualified under the IRS, with the exception of Roth IRAs and Payroll Deduction IRAs.

TAX INCENTIVE	WHO'S ELIGIBLE
Retirement Plans Startup Costs Tax Credit. To offset some of the costs of setting up a formal plan for you and your workers, you can access a tax credit specifically for small businesses. The credit represents 50% of your "ordinary and necessary eligible startup costs," as defined by the IRS, up to a limit of $500 each year.The credit is accessible for the first three years of offering the retirement savings plan, but employers may claim the credit in the tax year immediately before the tax year the plan becomes effective.	Small business owners with 100 or fewer employees that paid $5,000 or more in compensation for the previous year. The credit applies to those business owners who set up and administer a SEP, SIMPLE IRA, or other qualified plan. For more detail, see the IRS guidance.
Saver's Credit. For low-income employees earning $31,500 or less per year individually (other salary ranges apply if filing jointly with a spouse), the IRS offers the "Saver's Credit" to make putting away money for retirement easier. The amount of the credit varies according to eligible participants' adjusted gross income, filing status, and amount contributed to retirement plans, with a maximum value of $2,000 per person.	Any individual 18 years of age or older who contributes to a retirement plan, is not enrolled in school full-time, and not claimed as a dependent by anyone.For more detail, see the IRS guidance.

What are other businesses like mine doing?

Offering an employee retirement plan can mean a real competitive advantage for your business in hiring and retaining workers. At the same time, you shouldn't feel alone if you haven't yet been able to offer plans at your own business.

- **Most small business owners aren't able to offer a retirement plan to their employees.** In January 2016, research by Pew Charitable Trust found that just 22 percent of employees of businesses with 10 or fewer workers had access to a retirement plan through their employer.
- **Small businesses in the service industry are especially unlikely to offer plans.** In 2016 only 19 percent of service-industry workers reported having access to a defined contribution plan, the most common type of employer-sponsored retirement plan, according to the Bureau of Labor Statistics.
- **The cost to small business owners for each employee participating in a defined contribution retirement plan averages about 2 percent of an employee's hourly pay.** In 2016, the Bureau of Labor Statistics found that the cost to employers per employee for a defined contribution retirement plan (including administrative costs and contribution) was about 45 cents for every hour worked, or about 2 percent of average employee

compensation per hour, for businesses with fewer than 100 employees.
- **Administration costs can be affordable for small businesses with the right plan**. Experts have noted that administrative costs for a 10-participant 401(k) plan can be less than $1,000 per year. When combined with the Startup Costs Tax Credit, worth up to $500, costs could be even lower.

To access tax benefits through any of these IRA-qualified plans, ensure that any plan you adopt meets all stated requirements, including covering the proper employees, making timely contributions to employee accounts, and sharing all the required information with employees, among others. For tips and checklists to verify whether your plan complies with the law, see the guidance offered by the IRS, "Have You Had Your Retirement Plan Check-up this Year?"

Helpful Resources

Choosing a Retirement Plan

- The IRS Publication 3998 provides a comprehensive overview of small business owners' options for retirement plans, their key benefits and drawbacks, and the steps required for implementation.
- Zenefits' Small business health insurance benchmark report aggregates data from about 4,000 companies with 200 or less employees to provide benchmarks on different plan types, contribution rates, and trends in the healthcare space.