



The key to retirement security is picking the right plan for your business

If you're a small business owner or you're involved in a start-up, you may want to set up a tax-favored retirement plan for yourself and any employees. Several types of plans are eligible for tax advantages.

401(k) plan

One of the best-known retirement plan options is the 401(k) plan. It provides for employer contributions made at the direction of employees. Specifically, the employee elects to have a certain amount of pay deferred and contributed by the employer on his or her behalf to an individual account. Employee contributions can be made on a pretax basis, saving employees current income tax on the amount contributed.

Employers may, or may not, provide matching contributions on behalf of employees who make elective deferrals to 401(k) plans. Establishing and operating a 401(k) plan means some up-front paperwork and ongoing administrative effort. Matching contributions may be subject to a vesting schedule. 401(k) plans are subject to testing requirements, so that highly compensated employees don't contribute too much more than non-highly compensated employees. However, these tests can be avoided if you adopt a "safe harbor" 401(k) plan.

Within limits, participants can borrow from a 401(k) account (assuming the plan document permits it).

For 2019, the maximum amount you can contribute to a 401(k) is \$19,000, plus a \$6,000 "catch-up" amount for those age 50 or older as of December 31, 2019.

Other tax-favored plans

Of course, a 401(k) isn't your only option. Here's a quick rundown of two other alternatives that are simpler to set up and administer:

1. A Simplified Employee Pension (SEP) IRA. For 2019, the maximum amount of deductible contributions that you can make to an employee's SEP plan, and that he or she can exclude from income, is the lesser of 25% of compensation or \$56,000. Your employees control their individual IRAs and IRA investments.

2. A SIMPLE IRA. SIMPLE stands for "savings incentive match plan for employees." A business with 100 or fewer employees can establish a SIMPLE. Under one, an IRA is established for each employee, and the employer makes matching contributions based on contributions elected by participating employees under a qualified salary reduction arrangement. The maximum amount you can contribute to a SIMPLE in 2019 is \$13,000, plus a \$3,000 "catch-up" amount if you're age 50 or older as of December 31, 2019.

Annual contributions to a SEP plan and a SIMPLE are controlled by special rules and aren't tied to the normal IRA contribution limits. Neither type of plan requires annual filings or discrimination testing. You can't borrow from a SEP plan or a SIMPLE.

Many choices

These are only some of the retirement savings options that may be available to your business. We can discuss the alternatives and help find the best option for your situation.