Retirement Plans for Small Businesses

There are options for small businesses that want to set up a retirement plan for their employees. Employer and employee contributions to retirement plans are generally tax-deductible.

Two plans are specifically designed to make it easier for smaller businesses to set up a retirement plan. These plans require very little paper work and have low administrative costs.

- **SEP – Simplified Employee Pension**
- **SIMPLE – Savings Incentive Match Plans for Employees**

Other options for businesses include:

- **401(k) plans**
- **Profit-sharing Plans**

### SEP – Simplified Employee Pension

Under a SEP, an employer contributes directly to traditional individual retirement accounts (SEP-IRAs) for all eligible employees (including themselves). A SEP does not have the start-up and operating costs of a conventional retirement plan. Contributions to a SEP are also tax deductible and your business pays no taxes on the earnings on the investments. A business of any size, even someone self-employed, can set up a SEP.

**How it works:**

- The employer chooses a percentage to contribute. In 2017, this amount can up to 25% of compensation, with a maximum of $54,000.
- Each year, the employer can decide how much to put into a SEP, and you are not locked into making contributions every year.
- Generally, you do not have to file any documents with the government.

**Easy to set up:**

- The employer fills out a short form.
- The employer finds a bank, mutual fund, or other financial institution with which to set up the plan. The financial institution will complete additional paperwork.
- Administrative costs are low.

**Good for employees:**

- Employees are 100% vested in all contributions;
- Employees can choose where to invest their money; and
- Employees keep their accounts when they change jobs.

The Department of Labor has additional information and resources about setting up a SEP.

[www.dol.gov/ebsa/Publications/SEPPans.html](http://www.dol.gov/ebsa/Publications/SEPPans.html)
**SIMPLE – Savings Incentive Match Plans for Employees**

A SIMPLE plan allows employees and employers to contribute to traditional IRAs set up for employees. It is ideally suited as a start-up retirement savings plan for small employers not currently sponsoring a retirement plan. Employers with 100 or fewer employees can set up a SIMPLE.

How it works:
- Largely funded by employee contributions, but limited employer contribution required.
- In 2017, employees may contribute a percentage of their salary, up to $12,500 a year (plus an additional $3,000 if you're 50 or older)
- Each year, the employer contributes either:
  - an amount that is equal to the employee’s contribution (up to 3% of pay), or
  - a fixed contribution of 2% of the employees’ wages

Easy to set up:
- The employer fills out a short form.
- The employer finds a bank, mutual fund or other financial institution with which to set up the plan. The financial institution will complete additional paperwork.
- Administrative costs are low.
- No IRS reporting is required.

Good for employees:
- Employees are 100% vested in all contributions;
- Employees can choose where to invest their money; and
- Employees keep their accounts when they change jobs.

The Department of Labor has additional information and resources about setting up a SIMPLE Plan: [http://www.dol.gov/ebsa/publications/simple.html](http://www.dol.gov/ebsa/publications/simple.html)

To learn more about the differences between a SEP and SIMPLE Plan, check out this helpful chart from USAA: [https://www.usaa.com/inet/pages/ira_simple_vs_sep](https://www.usaa.com/inet/pages/ira_simple_vs_sep)

**401(k) Plans and Profit-Sharing Plans**

How 401(k)s work:
- Employees contribute a percentage of their pay to the 401(k) up to a certain limit. In 2017, the contribution limit is $18,000 (plus an additional $6,000 if you're 50 or older). Salary deferrals can be either on a pre-tax basis or as designated Roth contributions.
- The employer may match the contribution.
- 401(k)s are more complex to administer than SIMPLEs, but may allow higher contributions.
- Unlike SIMPLE and SEPs, these plans require reporting to the government.

How profit-sharing plans work:
- The employer bases contributions on business profits or a percentage of pay.
- The employer can change the percentage each year.