What Retirement Benefits Should My Business Offer?

> *"As a female, millennial business owner, retirement savings is a very important topic to me. I went to a seminar talking about how millennials are playing catch-up on their savings. I brought the seminar speaker into my company to talk to my team about the impact of saving on their future lives, and as an asset they can use for emergencies."*

—U.S.-Based Entrepreneur

Encourage your employees to start setting money aside for their future. Second to health insurance, retirement plans are the most popular benefit businesses give their employees.[1]

Retirement programs don't only benefit your workers; they can also benefit you and your business:

1. **You can also participate in the plan you offer your employees.**
2. **They can offer tax advantages to your business through credits and deductions.**
3. **Money saved in plans grows tax-free.**[2]

Choose a retirement solution that works well for both your employees and your company.

Step 1: Questions about Your Business

To choose a plan that is appropriate for your business, consider a number of factors. The following questions will help you get started as you think about a plan for your business.

1. **My business has:**

   A. 1 employee (I am self-employed.)

   B. 2–100 employees

   C. 100+ employees

2. **I'm looking for a plan that:**

   A. Only I (the employer) contribute to

   B. Only the employee contributes to

   C. Both the employee and I contribute to

3. **The general type of plan that may be appropriate for my business is:**
   (Not sure? Check out the chart below for more details on each kind of plan.)

A) Individual Retirement Arrangement (IRA)

IRA stands for Individual Retirement Arrangement or Individual Retirement Account; it is a program that helps you be financially secure when you retire. An IRA can be something individuals set up on their own, or an employer can help its employees set up and fund their IRAs. Money in the IRA grows tax-free. With an IRA, the amount that an individual receives at retirement depends on the funding of the IRA and the earnings (or losses) on those funds.[3]

B) Defined contribution plan

Employees or their employer (or both) contribute to employees' individual accounts under the plan, sometimes at a set rate (such as 5 percent of salary annually). The employee contributions are not taxed until distributed, and the money in the plan grows tax-free. At retirement, an employee receives the accumulated contributions plus earnings (or minus losses) on the invested contributions. A 401(k) plan is a popular example of this type of plan.

C) Defined benefit plan

Often called a traditional pension plan, it promises a specified benefit at retirement—for example, $1,000 a month. The amount of the benefit is often based on a set percentage of pay multiplied by the number of years the employee worked for the employer offering the plan. Employer contributions must be sufficient to fund promised benefits. An enrolled actuary must determine the amount of the employer's required contribution each year.

For a full description of the types of plans available and their requirements, visit:
https://www.dol.gov/agencies/ebsa/employers-and-advisers/small-business/choosing-a-plan.

Step 2: Comparison Chart

Consider the features in the left-hand column, and read about options for retirement benefit programs. Circle the plans that are appropriate for the needs of your business.

SMALL BUSINESS RETIREMENT SAVINGS ADVISOR[4]

Features/ Options	Payroll Deduction IRA	SEP-IRA	SIMPLE-IRA	Safe Harbor 401(k)	Automatic Enrollment 401(k)	401(k)	Profit Sharing	Defined Benefit
Key Advantage	Easy to set up and maintain.	Easy to set up and maintain.	Salary reduction plan with little administrative paperwork.	Permits employee to contribute more than in other options without annual discrimination testing.	Provides high level of participation and permits high level of salary deferrals by employees. Also safe harbor relief for default investments.	Permits employee to contribute more than in other options.	Permits employer to make large contributions for employees.	Provides a fixed, pre-established benefit for employees.
Employers Who Can Provide This Option	Any business with one or more employees.	Any business that does not currently maintain any other retirement plan.	Any business with 100 or fewer employees that does not currently maintain any other retirement plan.	Any business with one or more employees.	Any business with one or more employees.	Any business with one or more employees.	Any business with one or more employees.	Any business with one or more employees.
Employer's Responsibilities	Set up arrangements for employees to make payroll deduction contributions. Transmit contributions for employees to funding vehicle. No employer tax filing required.	May set up plan by completing IRS Form 5305-SEP. No employer tax filing required.	May set up by completing IRS Form 5304-SIMPLE or 5305-SIMPLE. No employer tax filing required. Bank or financial institution does most of the paperwork.	There is no model form to establish a plan. Advice from a financial institution or employee benefit advisor may be necessary. A minimum amount of employer contributions is required. Annual filing of IRS Form 5500 is required.	There is no model form to establish a plan. Advice from a financial institution or employee benefit advisor may be necessary. Annual filing of IRS Form 5500 is required.	There is no model form to establish a plan. Advice from a financial institution or employee benefit advisor may be necessary. Annual filing of IRS Form 5500 required. Also requires annual non-discrimination testing to ensure plan does not discriminate in favor of highly compensated employees.	There is no model form to establish a plan. Advice from a financial institution or employee benefit advisor would be necessary. Annual filing of IRS Form 5500 is required.	There is no model form to establish a plan. Advice from a financial institution or employee benefit advisor would be necessary. Annual filing of IRS Form 5500 is required. Actuary must determine funding obligations.

Features/ Options	Payroll Deduction IRA	SEP-IRA	SIMPLE-IRA	Safe Harbor 401(k)	Automatic Enrollment 401(k)	401(k)	Profit Sharing	Defined Benefit
Funding Responsibility	Employee contributions remitted through payroll deduction.	Employer contributions only.	Employee salary reduction contributions and/or employer contributions.	Employee salary reduction contributions and employer contributions.	Employee salary reduction contributions and employer contributions.	Employee salary reduction contributions and/or employer contributions.	Employer contribution level can be determined year to year.	Primarily employer; may require or permit employee contributions.
Maximum Annual Contribution Per Participant	Up to $5,500 for 2018. Additional contributions can be made by participants age 50 or over up to $1,000 per year.	Up to 25% of compensation or a maximum of $55,000 in 2018.	**Employee:** Up to $12,500 in 2018. Additional contributions can be made by participants age 50 or over up to $3,000 in 2018. **Employer:** Either match employee contributions $ for $ up to 3% of compensation (can be reduced to as low as 1% in any 2 out of 5 yrs.) or contribute 2% of each eligible employee's compensation, up to $5,500.	**Employee:** Up to $18,500 in 2018. Additional contributions can be made by participants age 50 or over up to $6,000 in 2018. **Employer / Employee Combined:** Contributions per participant up to the lesser of 100% of compensation or $55,000 in 2018. Employer can deduct amounts that do not exceed 25% of aggregate compensation for all participants.	**Employee:** Up to $18,500 in 2018. Additional contributions can be made by participants age 50 or over up to $6,000 in 2018. **Employer / Employee Combined:** Contributions per participant up to the lesser of 100% of compensation or $55,000 in 2018. Employer can deduct amounts that do not exceed 25% of aggregate compensation for all participants.	**Employee:** Up to $18,500 in 2018. Additional contributions can be made by participants age 50 or over up to $6,000 in 2018. **Employer / Employee Combined:** Contributions per participant up to the lesser of 100% of compensation or $55,000 in 2018. Employer can deduct amounts that do not exceed 25% of aggregate compensation for all participants.	Contributions per participant up to the lesser of 100% of compensation or $55,000 in 2018. Employer can deduct amounts that do not exceed 25% of aggregate compensation for all participants.	Per plan terms, employer may permit or require employee contribution.
Minimum Employee Coverage Requirements	Should be made available to all employees.	Must be offered to all employees who are at least 21 years of age, employed by the business for 3 of last 5 years and earned at least $600 in a year for 2018.	Must be offered to all employees who have earned at least $5,000 in previous 2 years, and are reasonably expected to earn at least $5,000 in the current year.	Generally, must be offered to all employees at least 21 years of age who worked at least 1,000 hours in previous year.	Generally, must include all employees who have not already opted out and those who are at least 21 years of age who worked at least 1,000 hours in previous year.	Generally, must be offered to all employees at least 21 years of age who worked at least 1,000 hours in previous year.	Generally, must be offered to all employees at least 21 years of age who worked at least 1,000 hours in previous year.	Must be offered to all employees at least 21 years of age who worked at least 1,000 hours in previous year.

Features/ Options	Payroll Deduction IRA	SEP-IRA	SIMPLE-IRA	Safe Harbor 401(k)	Automatic Enrollment 401(k)	401(k)	Profit Sharing	Defined Benefit
Withdrawals, Loans and Payments	Withdrawals at anytime; subject to current federal income taxes and a possible 10% penalty if the participant is under age 59 1/2.	Withdrawals at anytime; subject to current federal income taxes and a possible 10% penalty if the participant is under age 59 1/2.	Withdrawals at any time subject to current federal income taxes. If employee is under age 59 1/2, may be subject to a 25% penalty if taken within the first 2 years of participation and a possible 10% penalty if taken afterwards.	Cannot take withdrawals until a specified event, such as reaching 59 1/2, death, separation from service or other event as identified in plan. May permit loans and hardship withdrawals. Withdrawals may be subject to a possible 10% penalty if participant is under age 59 1/2.	Cannot take withdrawals until a specified event, such as reaching 59 1/2, death, separation from service or other event as identified in plan. May permit loans and hardship withdrawals. Withdrawals may be subject to a possible 10% penalty if participant is under age 59 1/2.	Cannot take withdrawals until a specified event, such as reaching 59 1/2, death, separation from service or other event as identified in plan. May permit loans and hardship withdrawals. Withdrawals may be subject to a possible 10% penalty if participant is under age 59 1/2.	May permit loans and hardship withdrawals. Hardship withdrawals may be subject to a possible 10% penalty if participant is under age 59 1/2. Payment of benefits generally at retirement.	Payment of benefits generally at retirement, may offer participant loans.
Vesting	Immediate 100%	Immediate 100%	Employee salary reduction contributions and employer contributions vested 100% immediately.	Employee salary reduction contributions and most employer contributions vest immediately. Some employer contributions may vest over time according to plan terms.	Employee salary reduction contributions vest immediately. Employer contributions may vest over time according to plan terms.	Employee salary reduction contributions vest immediately. Employer contributions may vest over time according to plan terms.	May vest over time according to plan terms.	May vest over time according to plan terms.
Contributor's Options	Employee can decide how much to contribute at any time.	Employer can decide whether or not to make contributions year to year.	Employee can decide how much to contribute. Employer must make matching contributions or contribute 2% of each employee's salary up to the set maximum.	Employees can decide how much to contribute pursuant to a salary reduction agreement. The employer must make either specified matching contributions or a 3% contribution to all participants.	Employees, unless they opt otherwise, must make salary reduction contributions specified by the employer. The employer can make additional matching contributions as set by plan terms.	Employees can decide how much to contribute pursuant to a salary reduction agreement. The employer can make additional contribution, including matching contributions as set by plan terms.	Employer makes contribution as set by plan terms.	Employer makes contributions as set by plan terms.

Source: *ELAWS—Small Business Retirement Savings Advisor*, U.S. Department of Labor (2019), https://webapps.dol.gov/elaws/ebsa/plans/final.asp (accessed Jan. 11, 2019).

For more help in your selection process, check out the **United States Department of Labor's Small Business Retirement Savings Advisor** web app. This interactive online tool can guide you in choosing a retirement plan appropriate for your small business.

Conclusion:

Help your workers save for their future by sponsoring a retirement plan. You can motivate your employees to stay with your company by offering something they may not find at other small businesses. And remember—you're planning for your future as well.

DID YOU KNOW?

> *A woman retiring at age 65 can expect to live an average of 21 more years—around three years longer than a man of the same age.[5] Saving for retirement can make it more likely that she will have enough money to last through her retirement. In the words of Sharon Oberlander, "The earlier and more aggressive a woman entrepreneur is with retirement funding, the better."[6]*

---

[1] *For Employers*, U.S. Department of Labor (2019), https://www.savingmatters.dol.gov/employers.htm (accessed Jan. 11, 2019).
[2] U.S. Department of Labor—Employee Benefits Security Administration, *Choosing a Retirement Solution for Your Small Business* (2019), https://www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/publications/choosing-a-retirement-solution-for-your-small-business.pdf (accessed Jan. 11, 2019).
[3] *Individual Retirement Arrangements—Getting Started*, Internal Revenue Service (2019), https://www.irs.gov/retirement-plans/individuals-retirement-arrangements-getting-started (accessed Jan. 11, 2019).
[4] *ELAWS—Small Business Retirement Savings Advisor*, U.S. Department of Labor (2019), https://webapps.dol.gov/elaws/ebsa/plans/final.asp (accessed Jan. 11, 2019).
[5] U.S. Department of Labor—Employee Benefits Security Administration, *Women and Retirement Savings* (Sept. 2017), https://www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/publications/women-and-retirement-savings.pdf (accessed Jan. 11, 2019).
[6] Sharon Oberlander, *Investing and Saving as a Woman Entrepreneur*, Entrepreneurs' Organization (March 1, 2017), https://blog.eonetwork.org/2017/03/investing-saving-women-entrepreneur/ (accessed Jan. 28, 2019).