BiS Business news for the creative coast. businessinsavannah.com

Wednesday, 12/28/2016

Retirement account considerations for business owners

By: Todd Martin

No matter what your business succession and retirement plans are, every business owner should have a retirement plan. The reasons are multiple — there's the potential for tax savings, for one. There also can be protection from creditors, access to funds for self-lending, and even the potential for creating a great employee attraction and retention tool.

Let's take a look at four types of retirement savings strategies for business owners and talk about the things every business owner should look out for when choosing a retirement planning method.

Types of Accounts

SEP IRAs: A Simplified Employee Pension plan is a simple retirement account for a business owner to set up. SEPs can be used in conjunction with a Traditional or Roth IRA. For business owners with other employees, it's important to remember that this is an account only the employer contributes to.

SIMPLE IRAs: Savings Incentive Match Plans for Employees of Small Employers are IRAs suited for companies with fewer than 100 employees.

While this account is designed for employee contribution, employers can match as much as 3 percent of the employee's contribution or 2 percent of the employee's total pay.

Solo 401(k)s: For business owners who are the only employee of their business, a Solo 401(k) allows for high contribution limits and the ability to set up an account for a spouse.

Life insurance: While these policies offer no upfront tax deduction, cash values accumulate on a tax-deferred basis and money can be pulled out tax-free as long as the policy is kept in-force.

Choose the Right Plan

There are a great number of potential benefits and drawbacks that need to be considered for every retirement plan option, but the main questions employers must ask themselves are: Do I need the plan to offer protection from creditors? When a retirement plan qualifies under the Employee Retirement Income Security Act, the assets inside it are protected from creditors.

What about protection during a bankruptcy? Thanks to changes in bankruptcy laws in 2006, many of these accounts are not included in assessments of property during a bankruptcy.

How could a divorce impact my savings plan? Outside creditors aren't the only threat to assets. Sometimes during a divorce, business owners are required to split retirement plan assets under a qualified domestic relations order, which can allow for a transfer of assets without penalty or taxation.

Will I need to tap into the funds before retirement? Each of the solutions we outlined here has a penalty imposed for early withdrawals; loans, however, may be taken from some of them without penalty or taxation.

How long do I want to contribute? While SEP and SIMPLE participants can't contribute after they reach age 70.5, their employer must continue making contributions, which can be a big advantage for owner-employees who work past normal retirement age.

Which plan offers the most efficient way to take money out once I retire? Retirement planning is like organizing your climb down from a mountain — you have to think about how each option lends itself to the longevity of your retirement income needs.

What is the fee structure? Many plans are facing changes to commissions and fees charged thanks to the Department of Labor's new fiduciary rule.

This will impact how fees are charged, what they're charged for, and how much of your principal is working for you. Understanding the fees and the reasons they are charged is vital.

Retirement planning involves more than saving money. It's about planning to take a steady income from the money you've saved. It's also about creating an affordable plan for your business to implement — no matter how many employees you have.

Todd Martin is a principal with M3 Advisors. M3 Advisors is a business consulting firm in Savannah. He can be reached at Todd@M3Advisors.net or 912-352-9644.
