Small Business Retirement Solutions

Choosing a Retirement Plan for You and Your Employees

WHY SHOULD YOUR COMPANY START A RETIREMENT PLAN?

Small businesses employ about half of the U.S. private sector workforce and more than a third of all U.S. workers.[1] However, nearly 72 percent of workers in small companies have no retirement plan available through the company.[2]

As a small business owner or self-employed individual, you might think that a retirement plan is something you cannot afford for yourself or your employees. However, several legislative changes in recent years have made it easier and more affordable for small businesses to offer a retirement plan that can benefit employers and employees alike.

Some advantages of a retirement plan include:

- **Retirement Income:** A retirement plan can help you and your employees bridge the gap between Social Security income and total financial needs.
- **Tax Deductions:** Contributions are a tax-deductible from business income.
- **Tax Credits:** You may be able to claim a tax credit for part of the costs of starting or administering certain retirement plans.
- **Valuable Employee Benefit:** Retirement plans are a sought-after benefit that can assist you in recruiting, rewarding and retaining valuable employees.

A retirement plan may seem like a cost-prohibitive luxury, particularly in this slow economy. However, now is the perfect time to consider establishing one. Not all plans require an employer match. Simply providing a plan that will allow your employees to set aside their own dollars for retirement can be an invaluable benefit to them. *Encouraging employees to invest now can potentially help them take advantage of a down market and capitalize on their investments when they appreciate in value. Even without offering matching contributions, providing a retirement plan can be a great tool for retaining valuable employees.

As your advisor, we can help you select a retirement plan that will help meet your needs regardless of the flexibility and features that you are looking for in a plan. This brochure provides an overview of several of the options that are available to you as a small business owner. We are available to discuss these plans in greater detail and help you determine the right retirement plan for you and your employees.

*Investing involves market risk, including loss of principal.

SIMPLE IRA

SIMPLE IRA plans are an excellent option for small business employers who want a plan that they and their employees can contribute to with less complexity and lower costs than a 401(k). Available to employers with 100 or fewer employees, SIMPLE IRAs offer flexibility and ease of administration that make them an appealing option for many small businesses.

Under a SIMPLE plan, employers are required to contribute to the plan but can do so by making either matching or non-elective contributions. Employees can choose to make their own contributions to the plan via payroll deductions.

Advantages of a SIMPLE IRA

Simplicity: No discrimination testing or IRS Form 5500 reporting required.

Low Cost: No setup fees or plan administration fees charged to the business owner; minimal annual account fees are charged to individual employees and are usually automatically drafted from the accounts.

Flexibility: Employers can choose to make contributions in one of two ways:

- Matching Contribution — Employers make a dollar-for-dollar match of employees' salary deferrals up to3 percent of each employee's compensation. In two years of any five-year period, the match can also be lowered to 1 percent.
- Non-elective Contribution — Employers make a contribution of 2 percent of compensation for each eligible employee regardless of whether employees choose to make salary deferrals.

Employee Deferrals: For 2021, employees may make salary deferrals up to the lesser of $13,500 ($16,500 if age 50 or older) or 100 percent of income. Other SIMPLE IRA Considerations

- Cannot be paired with other employer-sponsored retirement plans; it must be the employer's exclusive plan.
- Does not permit Social Security integration.
- The premature withdrawal penalty increases to 25 percent during the first two years of participation. This amount decreases to 10 percent thereafter.
- Employees are immediately 100 percent vested in all contributions.
- Loans are not permitted.
- Annual 60-day notice that outlines the employer's contribution commitment for the coming year must be given to all eligible employees.

SIMPLE IRA plans are an excellent option for small business employers who want a plan that they and their employees can contribute to with less complexity and lower costs than a 401(k).

SEP IRA

SEP IRAs are retirement plans that allow an employer to make discretionary, tax-deductible contributions to their employees' accounts. These plans can also be utilized by self-employed individuals. Each eligible employee establishes an individual SEP IRA account at a financial institution and the employer makes contributions on their behalf. The employee owns and controls the account, while the employer determines the frequency and the amount of contributions.

Advantages of a SEP

Choice: The employer chooses how much to contribute to employee accounts.

Simplicity: Easy to establish; IRS Form 5500 is generally not required if Form 5305-SEP and its instructions are distributed to employees.

Low Cost: Minimal set-up and maintenance fees.

High Contribution Limits: For 2021, employers can contribute up to the lesser of $58,000 or 25 percent of compensation.

Flexibility: Employer decides what percentage and how often to contribute; there are no requirements to contribute.

Integration: Social Security integration is allowed.

Other SEP Considerations

- Employer must contribute an equal percentage to each participant's account.
- The employee owns and controls the account.
- Top-heavy testing must be performed.
- All contributions are immediately 100 percent vested.
- Loans are not permitted.
- Self-employed individuals, C or S corporations, sole proprietorships and partnerships are eligible.
- Employers may require that employees must have reached age 21 and earned at least $650 while working for the company for at least three of the previous five years to become eligible to participate in the plan.

SEP and SIMPLE Contribution Examples

			SEP	SIMPLE		
	Compensation	Age	Employer Contribution	Salary Deferral	Employer Match	Total
Owner	$250,000	55	$58,000	$16,500	$7,500	$24,000
Employee 1	$50,000	51	$12,500	$16,500	$1,500	$18,000
Employee 2	$30,000	35	$7,500	$13,500	$900	$14,400
Employee 3	$20,000	30	$5,000	$13,500	$600	$14,400
Employee 4	$15,000	19	$3,750	$13,500	$450	$13,950
Total Contribution			**$86,750**	**$73,500**	**$10,950**	**$84,750**

SOURCE: Benefits Partners.

SEP IRAs are retirement plans that allow an employer to make discretionary, tax-deductible contributions to their employees' accounts.

INDIVIDUAL 401(K)

Individual 401(k) plans are designed for small businesses whose only eligible employees are the owner and the owner's immediate family.

Advantages of an Individual 401(k)

High Contribution Limits: Both salary deferral and profit-sharing contributions are allowed.

- For 2021, the maximum salary deferral is the lesser of $19,500 ($26,000 for age 50 and older) or 100 percent of compensation.
- A profit-sharing contribution of up to 25 percent of eligible compensation may also be made.
- For 2021, the maximum combined contribution limit (salary deferrals plus profit-sharing contributions) is the lesser of $58,000 ($64,500 for age 50 or older) or 100 percent of compensation.

Tax Savings: Contributions are tax-deductible and earnings are tax-deferred.

Flexibility: Salary deferrals and profit-sharing amounts are discretionary — the employer is able to increase, decrease or stop contributions at will.

Other Individual 401(k) Considerations

- Participants can roll over 401(k), 457, 403(b) and pre-tax IRA monies into the individual 401(k).
- Loans are allowed.
- Participants are immediately 100 percent vested in all contributions.
- No top-heavy or discrimination testing required.
- IRS Form 5500 filing is required if assets exceed $250,000.
- There are fewer administrative requirements than with a 401(k) for businesses with other eligible employees, lowering cost significantly. Annual administration and tax preparation fees for a full service individual 401(k) account average around $500.
- Designated Roth contributions offer tax-free qualified distributions (salary deferrals and employer contributions are included in the participant's taxable income the year that they are earned).

401(K)

The 401(k) is a very flexible retirement plan design that is available to businesses of any size. These plans offer many features that make them attractive to both employers and employees. However, these plans also require more administration and can cost more than other retirement plan options. Still, its flexibility makes the 401(k) a popular choice for large and small businesses alike.

Advantages of an 401(k)

Tax Deferral: Employees can make salary deferrals on a pre-tax basis of up to $ 19,500 in 2021 ($26,000 for age 50 or older).

Matching Contributions: Employers may make matching and profit-sharing contributions that, when combined, total up to a maximum of 25 percent of compensation. In 2021, the combination of employee deferrals and employer contributions may total up to the lesser of $58,000 ($64,500 for age 50 or older) or 100 percent of compensation.

Flexibility: Employers can determine matching formulas and vesting schedules of employer contributions and can implement features such as automatic enrollment and automatic deferral increases.

Other 401(k) Considerations

- *Loans and hardship withdrawals are permitted.
- Eligibility requirements can be established to allow for exclusion of part-time and seasonal employees.
- Designated Roth contributions offer tax-free qualified distributions (salary deferrals and employer contributions are included in the participant's taxable income the year that they are earned).
- Require more administration than other plans, resulting in administrative costs.
- Top-heavy and nondiscrimination testing is required.
- IRS Form 5500 filing is required.

SAFE HARBOR 401(K)

A Safe Harbor 401(k) plan may be a good option for businesses that have highly compensated employees (HCEs) who are not able to maximize their contributions to a traditional 401(k) plan due to low participation rates of non-HCEs. By including a mandatory employer contribution, Safe Harbor 401(k)s are not required to pass the same nondiscrimination tests that traditional 401(k) plans are subject to.

Advantages of a Safe Harbor 401(k)

Save More: Required employer contributions allow HCEs to make the maximum salary deferral ($19,500 in 2021, $26,000 if age 50 or older) regardless of non-HCE participation rates.

Flexibility: Permits employers to choose between a matching option and a non-elective option:

- Matching option — Requires the employer to match dollar-for-dollar on the first 3 percent of employee deferrals and 50 cents on the dollar for the next 2 percent of pay (4 percent match on 5 percent deferral).
- Non-elective option — Requires the employer to contribute 3 percent of compensation for all eligible employees regardless of whether employees make salary deferrals.

Other Safe Harbor 401(k) Considerations

- All contributions must be 100 percent vested immediately.

*Early withdrawals and other distributions of taxable amounts may be subject to ordinary income tax, and if taken prior to age 59 ½, a 10% federal tax penalty may apply.

PROFIT-SHARING PLANS

Profit-sharing plans allow employers to make discretionary, tax-deductible contributions for their employees in a similar manner to that of the SEP IRA. However, profit-sharing plans provide employers with more control over eligibility requirements and vesting schedules.

Advantages of a Profit-sharing Plan

High Contribution Limits: For 2021, employers may contribute up to the lesser of 25 percent compensation or $58,000.

Choice: The amount of the contribution can change from year to year and is up to the employer to determine.

Integration Permitted: Contributions may either be a flat percentage of each employee's compensation, or they may be integrated with the Social Security taxable wage base ($142,800 for 2021). Employees earning more than this receives a greater portion of the contribution to compensate for the smaller percentage of Social Security benefits they accrue.

Flexibility: Employer may establish a vesting schedule and decide whether or not to make loans and hardship withdrawals available to participants.

Eligibility: Part-time and seasonal employees may be excluded with eligibility requirements.

Other Profit-sharing Plan Considerations

- Subject to ERISA reporting.
- Moderate administration.
- In general, the same percentage of compensation must be contributed on behalf of all participants.
- For 2021, if a 401(k) is offered in conjunction with a profit-sharing plan, the combination of employee deferrals and employer contributions (including matching contributions) is the lesser of $58,000 ($64,500 for age 50 or older) or100 percent of compensation.

PROFIT-SHARING PLANS ALLOW EMPLOYERS TO MAKE DISCRETIONARY, TAX-DEDUCTIBLE CONTRIBUTIONS FOR THEIR EMPLOYEES IN A SIMILAR MANNER TO THAT OF THE SEP IRA.

PLAN VARIATIONS

Profit-sharing plans offer variations to accommodate the needs of different employers. Contribution amounts are based on actuarially projected benefits at retirement. These variations allow business owners to skew contributions toward older, more highly paid employees. Profit-sharing plan variations include age-weighted plans, new comparability plans and super comparability plans.

Age-weighted Plans: Contributions are based on a formula that takes both age and compensation into account. Older employees receive larger contributions than their younger counterparts.

New Comparability Plans: Similar to an age-weighted plan, but instead of considering just age and compensation, new comparability plans allow employers to categorize employees by several criteria, including tenure, ownership, job function and age. Using these criteria, employers can determine an allocation formula to group employees as either "preferred" or "non-preferred." The preferred group receives a greater share of the contributions.

Super Comparability Plans: A hybrid of the Safe Harbor 401(k) and the new comparability plan design, the super comparability plan allows employees to contribute to their own 401(k) accounts while also receiving profit-sharing contributions from their employer. A non-elective 3 percent employer contribution to all employees satisfies the Safe Harbor requirement and allows HCEs to make the maximum salary deferral to their own accounts ($18,000 in 2015; $24,000 if age 50 or older). The new comparability portion of the plan then allows the employer to skew profit-sharing contributions toward a preferred group.

Single-participant, or individual, defined benefit plans are designed for small business owners or self-employed individuals.

SINGLE-PARTICIPANT DEFINED BENEFIT PLANS

Single-participant, or individual, defined benefit plans are designed for small business owners or self-employed individuals. These owner-only retirement accounts offer the highest possible deductible contributions available.

Advantages of a Single-participant Defined Benefit Plan

Benefit Limits and Contribution Amounts: The maximum annual benefit for a defined benefit plan is $230,000 for 2021. Actuarially determined funding requirements to achieve this benefit may require funding that is up to four times higher than the contribution limits of other retirement plan types.

Tax Savings: Employer contributions are a tax-deductible business expense, so higher contribution limits can lead to increased tax savings.

Investment Options: Employer decides how much to contribute and how to direct the investments.

Accelerated Interest Earnings: Larger base of contribution dollars can accelerate the growth of your retirement account.

Control: Money that is saved and invested is targeted to produce a defined income level at retirement. The owner determines what his or her retirement benefit will be.

Other Single-participant Defined Benefit Plan Considerations

- Requires an attorney.
- Plan may be more expensive to establish and maintain than other retirement plan types.
- Subject to ERISA reporting.
- May require coverage by the Pension Benefit Guaranty Corporation.

DEFINED BENEFIT PLANS (GROUP)

Defined benefit plans are qualified retirement accounts that pay a specific benefit at the plan holder's retirement age. These plans can be an excellent option for companies with older employees who wish to accumulate assets rapidly, or for high-revenue companies and small businesses that can afford to make higher contributions.

Advantages of a Defined Benefit Plan

Tax Deductions: Contributions to an individual defined benefit plan are a deductible business expense and offer the largest deductions available under current tax laws.

Investment Options: The investment committee has greater flexibility in making investment decisions than with other retirement plan designs.

Asset Protection: Plan assets are protected from creditors under current federal guidelines.

High Benefit Limits: Maximum retirement benefit of 100 percent of average compensation for the three consecutive years in which the participant's compensation was the highest, up to a maximum of $230,000 for 2021.

Known Benefit Amount: Unlike with defined contribution plans such as 401(k)s, employees know how much they will receive at retirement.

Ability to Combine with Defined Contribution Plans: Can contribute maximum allowed amounts to a defined contribution plan and still fund a defined benefit plan.

Other Defined Benefit Plan Considerations

- Require actuarial projections and administrative maintenance, making these plans more expensive to establish and administer.
- Quarterly contributions required.
- The employer bears 100 percent of the investment risk, and mandatory annual contributions are subject to market volatility.
- The employer is responsible for investment management, actuarial calculations and annual contributions.
- Subject to ERISA reporting.
- May require coverage by the Pension Benefit Guaranty Corporation.

One size does not fit all when it comes to retirement plans. As your advisor, we can help you determine the design that can maximize your contributions and minimize your tax liabilities.

Choosing the Right Retirement Plan

All of the retirement plans discussed here have unique advantages and considerations. The following chart provides a summary of each design, including contribution limits and key considerations for choosing the plan that best meets your company's needs.

SIMPLE IRA	
Who Can Establish	Self-employed persons, partnerships, corporations, nonprofit groups, tax-exempt institutions and government entities with 100 or fewer employees. Generally, the employer may not maintain another plan.
Key Features	1. Inexpensive 401(k)-type plan for the smaller business owner. 2. No 401(k)-type discrimination testing. 3. Deductible employer contributions are made directly to employees' IRAs. 4. Employer contributions are mandatory. 5. All contributions are immediately 100 percent vested.
2021 Annual Contribution Limit	1. Employees can defer up to $13,500 ($16,500 if 50 or older). 2. Employer must choose one of two options: • Match employee's contribution dollar for dollar, up to 3 percent of compensation (match cannot exceed deferral limit). • Contribute 2 percent of each eligible employee's compensation.
SEP IRA	
Who Can Establish	Self-employed persons, partnerships, corporations and nonprofit groups
Key Features	1. Deductible employer contributions are made directly to employees' IRAs. 2. Employers can change their annual contributions. 3. All contributions are immediately 100 percent vested. 4. Minimal paperwork and reporting.
2021 Annual Contribution Limit	Up to the lesser of 25 percent of an employee's eligible compensation or $58,000
401(k) Plans and Individual 401(k) Plans	
Who Can Establish	Partnerships, corporations and nonprofit groups
Key Features	1. Permits pre-tax salary deferral contributions. 2. Designated Roth contributions offer tax-free qualified distributions (salary deferrals and employer contributions are included in the participant's taxable income the year that they are earned). 3. Employer matching and profit-sharing contributions may be discretionary. 4. Vesting schedule on employer contributions is determined by the employer for group 401(k); individual 401(k)plans are 100 percent vested immediately. 5. Participant loans are available. 6. Due to complicated discrimination testing and tax reporting, third party administrative services are recommended.
2021 Annual Contribution Limit	• Employees can defer up to $19,500 ($26,000 for 50 or older). • Deferrals and employer contributions cannot exceed the lesser of 100 percent of compensation or $58,000 ($64,500 for 50 or older) per employee. • Total employer contributions to the plan cannot exceed 25 percent of total eligible compensation. (Employer contributions exclude employee deferrals).

Choosing the Right Retirement Plan *continued*

Safe Harbor 401(k) and Super Comparability Plans	
Who Can Establish	Partnerships, corporations and nonprofit groups (no government entities)
Key Features	1. Safe Harbor 401(k) permits employers to choose either a 3 percent profit sharing contribution or a 4 percent match on a 5 percent deferral. 2. Super comparability 401(k) combines the features of a new comparability plan with 401(k) safe harbor provisions. 3. Employer contribution must be made each year to maintain safe harbor provisions. 4. Safe harbor contributions satisfy nondiscrimination requirements. 5. Participant loans are available for either plan if permitted by the plan. 6. Due to the complexity of the contribution calculation, retirement plan administrative services are required.
2021 Annual Contribution Limit	• Employees can defer up to $19,500 ($26,000 for 50 or older). • Deferrals and employer contributions cannot exceed the lesser of 100 percent of compensation or $58,000 ($64,500 for 50 or older) per employee. Catch-up deferrals are not included in this limit. • Total employer contributions to the plan cannot exceed 25 percent of total eligible compensation. (Employer contributions exclude employee deferrals.) • Maximum eligible compensation: $290,000.
Traditional Profit-Sharing Plans, Age-weighted and New Comparability	
Who Can Establish	Self-employed persons, partnerships, corporations and nonprofit groups
Key Features	1. Profit sharing contribution requirements are set in the plan document. Contributions may be discretionary. 2. Age-weighted formula is determined by the salary range and age of employees. 3. New comparability formula groups employees into categories and then bases the formula on each group as governed by nondiscrimination regulations. 4. Employers may add a 401(k)-salary deferral feature for all plans. 5. Participant loans are available for all if permitted by the plan. 6. Vesting schedule is determined by the employer for all plans. 7. Due to the complexity of the contribution calculation and nondiscrimination testing, retirement plan administration services are required.
2021 Annual Contribution Limit	• Total employer contribution cannot exceed the lesser of 25 percent of total eligible compensation or $58,000 per employee. • Maximum eligible compensation: $290,000.
Defined Benefit Plans (Single Participant or Group)	
Who Can Establish	Self-employed persons, partnerships, corporations and nonprofit groups
Key Features	1. Known benefit amount at retirement. 2. Permits higher contribution limits than many other retirement plan options.
2021 Max Benefit	100 percent of average compensation for the three consecutive years in which the participant’s compensation was the highest, up to a maximum of $230,000 a year. Annual contribution requirements are actually calculated.

Each of the employee-sponsored retirement plans reviewed in this brochure has a unique combination of features. We are here to help you evaluate your individual business and personal needs and compare them with the advantages offered by the various plan designs. Finding the optimal match will help you and your employees maximize the tax and savings advantages available under current law, while also helping your business attract and retain valuable employees. Whatever your motivation, we look forward to working with you to determine, establish and maintain the retirement plan that best fits your situation and helps you and your employees set and achieve financial goals.

We remain committed to staying abreast of the latest resources, trends and legislative developments so that we can help empower you and your employees to effectively plan and prepare for retirement.

Our goal is to provide you the tools and resources that can help you build and maintain a successful plan for your employees.

1. SBA Office of Advocacy. "Frequently Asked Questions." 2012.
2. SBA Office of Advocacy. "Small Business Research Summary." 2010.

About NFP

At NFP Corp., our solutions and expertise are matched only by our personal commitment to each client's goals. We're a leading insurance broker and consultant that provides employee benefits, property & casualty, retirement, and individual insurance and wealth management solutions through our licensed subsidiaries and affiliates.

NFP has more than 5,800 employees and global capabilities. Our expansive reach gives us access to highly rated insurers, vendors and financial institutions in the industry, while our locally based employees tailor each solution to meet our clients' needs. We've become one of the largest insurance brokerage, consulting and wealth management firms by building enduring relationships with our clients and helping them realize their goals.

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