

how lucky are you?

RETIREMENT PLANNING FOR SMALL BUSINESSES



Consider yourself lucky if you own or work for a small business that offers 401(k) retirement plans. Only 5% of companies with fewer than five employees and less than one-third of companies with 26 to 100 employees provide them. In other words, approximately 32 million workers in small businesses across the U.S. do not have access to a retirement savings strategy. While it's a hard pill to swallow, these individuals could easily be your neighbors, friends, or family members.

When it comes to your retirement savings, how secure do you feel? How successful are you at attracting and retaining employees without offering a retirement benefit if you're a business owner? Are you worried about how an impending recession might impact your goals?

Whether you're worried about the future or not, if you have three to six months of essential personal and business expenses saved in an emergency fund, you're ahead of the curve. If you're still on the fence about retirement savings or what you should offer your employees, consider these facts.

- There is less certainty surrounding Social Security.
- People are living and working longer.
- Retirement plans support your employees as they plan for the future.
- Retirement plan tax benefits help you prepare for your own retirement.

Most people rely on three traditional strategies to prepare for the future – social security, personal savings, and retirement plans, with the third being the most reliable. Retirement plans make a crucial difference and come in a variety of plan options for business owners, employees, and self-employed individuals.

Before choosing the one that's right for you, consider your priorities. Are you seeking flexibility? Do you need a tax deduction? How many employees do you have? Are you challenged to find and keep talent if you don't offer a retirement benefit?

The following overview breaks down your options and gives you enough facts to start moving to become one of the lucky ones.

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Retirement Plan Options

SEP-IRA

- No annual reporting required
- Must include most employees, even part-time workers
- Only the employer makes contributions
- Contributions up to 25% of employee compensation
- Contributions must be in cash—not property
- Required minimum distribution (RMD) age moved from 70 ½ to 72 in 2020

SIMPLE-IRA

- Businesses with 100 or fewer employees earning
- at least \$5,000 a year
- Businesses with no other retirement plan
- Companies looking for a plan funded by
- employee contributions
- Businesses seeking flexible contributions and
- minimal administration
- Who qualifies?
 - Employees who are at least 21 years old, have two years of service before the current plan year, and meet these salary requirements:
 - Employees who earned at least \$5,000 during any of the two preceding years
 - Employees expected to make at least \$5,000 during the current plan year
- With a Matching Simple-IRA Plan, you pay 3% of the employee's salary
- With Non-Elective Contributions to a SIMPLE-IRA Plan, you pay 2% of each eligible employee's compensation

Profit-Sharing

- Discretionary contributions
- Good fit for companies with fluctuating profits
- Can help retain and attract talent
- Includes employees who are 21 and older and have worked 1,000 hours or more during a plan year
- More complex than SEP-IRA and SIMPLE IRA plans

401(k)

- Same rules and limits for sole proprietors

- Allow employee contributions—but don't require employer contributions
- Good fit for companies with 30 or more employees

If you're making a list of pros and cons, the reasons to start saving for retirement now far outweigh any reasons to wait. Whether we like it or not, the future is coming, so protect yourself, your family, and your business, including the employees who help you run it.



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