

Golden Bullets

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CHOOSING THE RIGHT PENSION PLAN: THINGS TO CONSIDER

Closely held business owners usually search hard to find tax-advantaged benefits for themselves and for their employees. *Pension plans* are usually high on the list of desirable strategies.

A pension plan allows the employer to take a tax deduction for amounts that it commits to the plan. The participating employee generally does not have to pay any income taxes on the amounts the employer puts in the plan. The employee only pays income taxes when receiving actual distributions—presumably at retirement.

So why doesn't every business have a pension plan? Qualified retirement plans come with substantial baggage:

- All eligible employees must be included.
- The plan cannot discriminate in favor of certain employees.
- Related businesses must be aggregated together.
- A plan document must be implemented and kept up-to-date.
- Other strict administrative requirements must be observed.

Full Administration Pension Plans, such as *Section 401(k) plans* or *defined benefit pension plans*, have the most burdensome requirements, making such plans expensive to set up and maintain. Still, even some smaller businesses choose to implement them for tax or practical reasons.

The **phase-out of itemized deductions** began at \$83,400 of **Simplified Administration Pension Plans** are likely to be more attractive to closely held business owners, due to their streamlined setup and administration.

Here's a short list, with the kinds of situations where they are the best fit:

- *Simplified employee pensions (SEPs)*, are excellent when the only employee of the business is the owner, or employees are all members of the owner's family.
- *SIMPLE IRAs* work well when the employer wants employees to share responsibility for their retirement savings or if the employer of a small company wants much simpler administration than a full Section 401(k) plan.
- *SIMPLE 401(k) plans* are useful where the employer wants to implement a 401(k) style plan, but also wants easier administration. They are also good where an employer might be a candidate to implement a SEP or a SIMPLE IRA, but the employer wants to add loans and hardship withdrawals flexibility for employees.

There is no one "best" pension plan for every business owner. The business owner's biggest challenge in deciding on a pension plan is this: How can the needs of the business, the business owner and the business's employees be best balanced? Please let me know if I can help you answer that question.

AS ALWAYS, PLEASE FEEL FREE TO CALL TO DISCUSS THESE OR OTHER FINANCIAL SECURITY ISSUES OF CONCERN.

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