

Retirement Plans for Solo Practitioners and Small Firms

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Presentation Goals

- Broad Understanding of Retirement Plan Options
 - Pros & Cons
 - How to Implement

What are Your Goals?

- Save for your own retirement in a tax-advantaged, secure manner
- Provide a means for your employees to save
- Maximize contributions/benefits
- Retain employees
- Maximize dollars spent on key employees
- Administrative Simplicity

Simplicity versus Flexibility

IRA Based Approaches [IRC 408]

- Administratively Simple
- Less flexibility in design
- Uniform Contributions

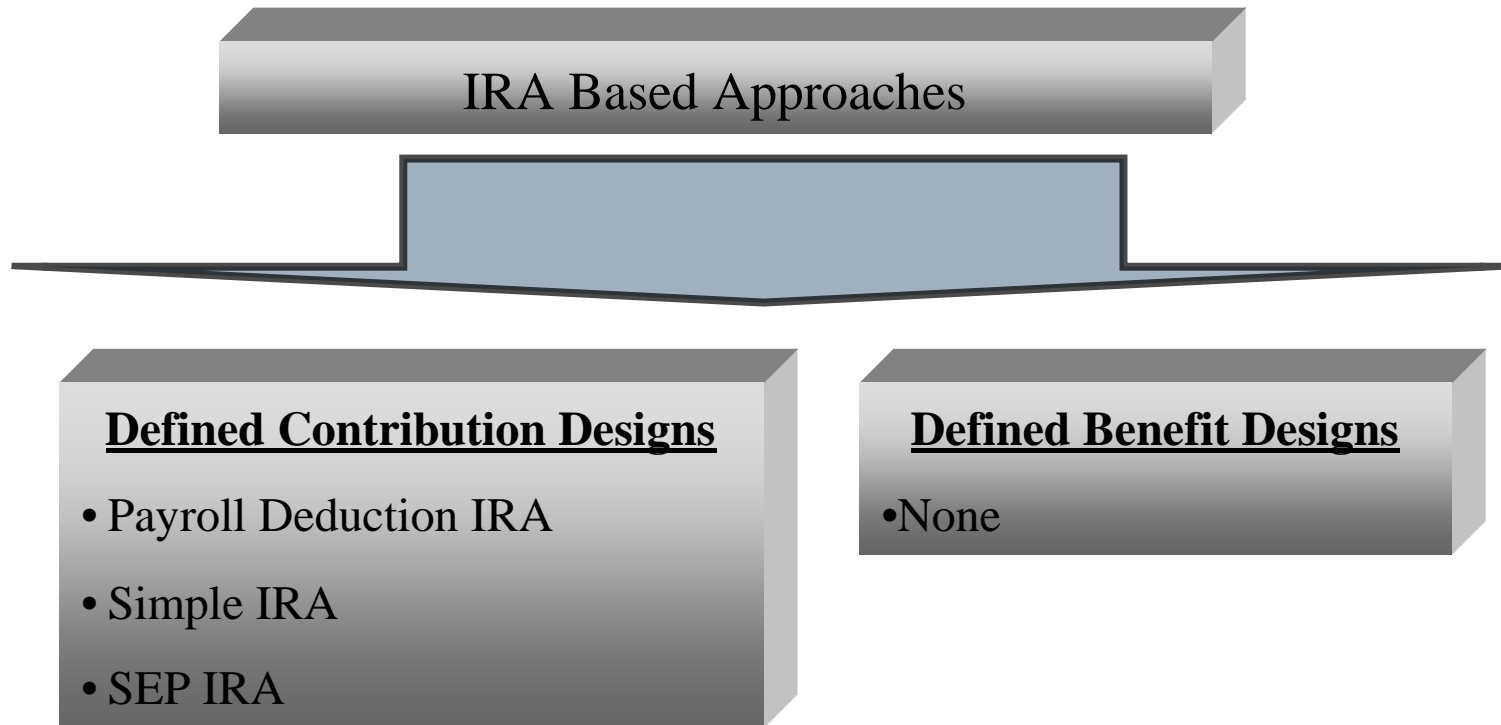
Qualified Plan Approaches [IRC 401]

- More Administratively Complex
- More flexibility in design
- Can maximize tax deductions
- Can contribute more towards owner/partner

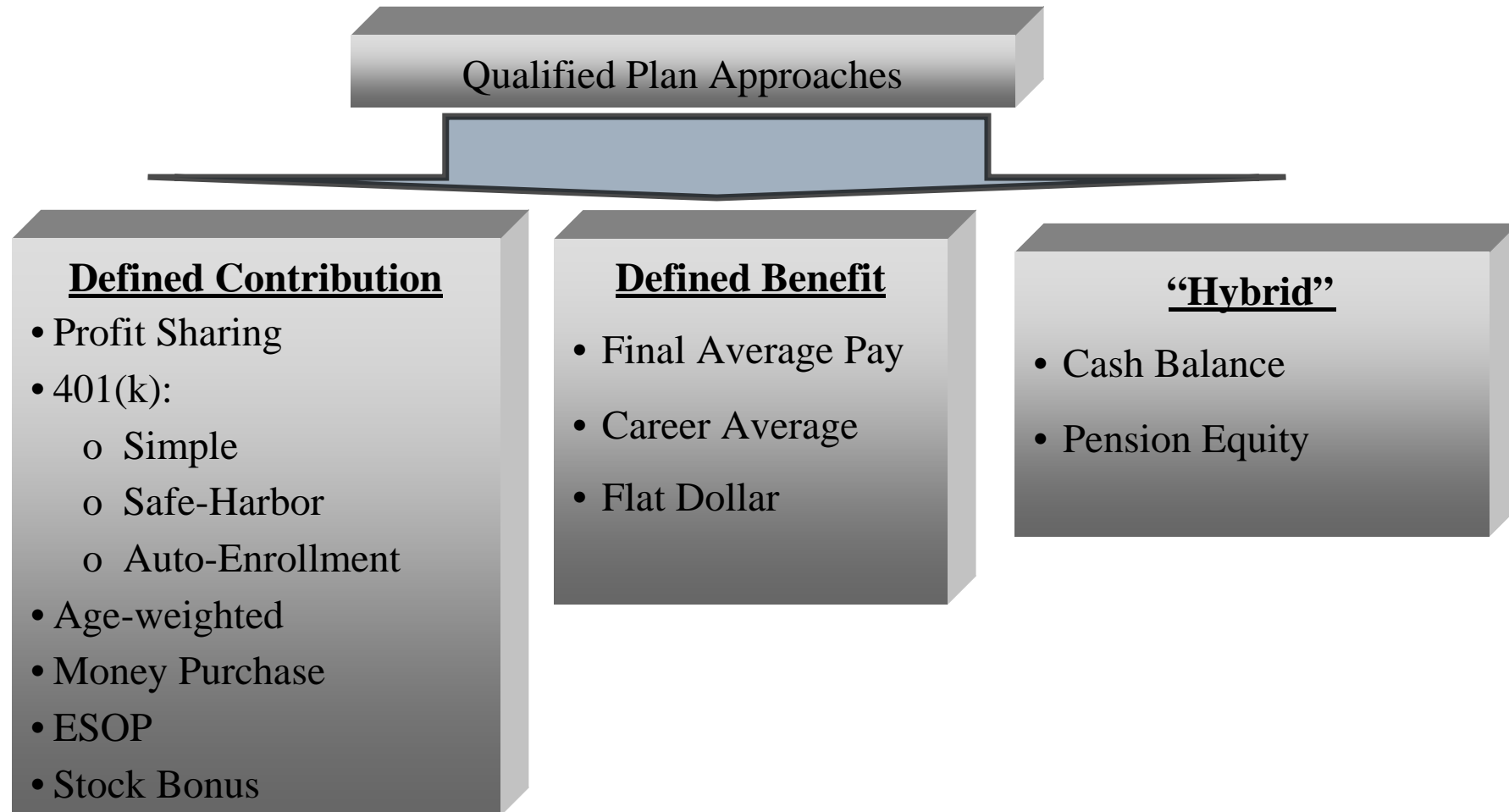
DC versus DB versus Hybrid

- Sample DC Formulas.
 - 5% of pay
 - \$3,000
 - Match employee contributions up to 3% of pay
- Sample DB formulas. A life annuity commencing at age 65 equal to:
 - 2% of career earnings;
 - 2% of final average earnings;
 - \$1,000 per year of service
- Sample Hybrid formulas. A lump sum at retirement equal to:
 - 5% of pay with an interest guarantee; account can be converted into a life annuity at retirement
 - 15% of final average earnings times years of service; can be converted into a life annuity at retirement

IRA Based Approaches



Qualified Plan Approaches



IRA Based Approaches

	Payroll Deduction	Simplified Employer Pension (SEP)	Simple
Why You Might Use	<ul style="list-style-type: none">▪ No employer cost other than basic administration	<ul style="list-style-type: none">▪ Simplest way for Employer to contribute towards retirement	<ul style="list-style-type: none">▪ Simplest way to allow employees to defer compensation on a pre-tax basis
Employees Covered	<ul style="list-style-type: none">▪ Typically offered to all employees but not required	<ul style="list-style-type: none">▪ Must be offered to all employees that:<ul style="list-style-type: none">▪ are at least 21 and,▪ have worked at least three out of the last five years	<ul style="list-style-type: none">▪ Must be offered to all employees who have \$5,000 or more in earnings during the past two years▪ Less than 100 employees

IRA Based Approaches

	Payroll Deduction	Simplified Employer Pension (SEP)	Simple
Employee Contributions	<ul style="list-style-type: none"> ▪ \$0 - \$5,000 per year; ▪ increased by \$1,000 if over age 50 	<ul style="list-style-type: none"> ▪ None allowed 	<ul style="list-style-type: none"> ▪ Up to \$11,500 pre-tax ▪ increased by \$2,500 if over age 50
Employer Contributions	<ul style="list-style-type: none"> ▪ None Allowed 	<ul style="list-style-type: none"> ▪ Up to the lesser of 25% of compensation or \$49,000 ▪ Must be uniform ▪ Can vary year-to-year 	<ul style="list-style-type: none"> ▪ Annual choice of: <ul style="list-style-type: none"> ▪ 2% of pay or ▪ a dollar-for-dollar match up to 3% • Can reduce match • No other contributions

IRA Based Approaches

	Payroll Deduction	Simplified Employer Pension (SEP)	Simple
Distributions	<ul style="list-style-type: none"> Traditional IRA by April 1 of the year following age 70-1/2; Roth IRA: no required distributions Can receive prior to age 59-1/2 but subject to penalties. 	<ul style="list-style-type: none"> Same as Traditional IRA 	<ul style="list-style-type: none"> Same as Traditional IRA
Loans	<ul style="list-style-type: none"> None Allowed 	<ul style="list-style-type: none"> None Allowed 	<ul style="list-style-type: none"> None Allowed
Vesting	<ul style="list-style-type: none"> Always 100% Vested 	<ul style="list-style-type: none"> Always 100% Vested 	<ul style="list-style-type: none"> Always 100% Vested
Why Not Use	<ul style="list-style-type: none"> No employer contributions Limited employee deferrals No design flexibility 	<ul style="list-style-type: none"> No employee deferrals Uniform employer contributions No design flexibility 	<ul style="list-style-type: none"> No design flexibility Limited employer contributions

Qualified Plan Approaches: Defined Contribution

	Simple 401(k)	Safe-Harbor 401(k)	401(k)
Why You might use	<ul style="list-style-type: none"> ▪ Similar to Simple IRA but: <ul style="list-style-type: none"> ▪ Roth Accounts ▪ Loans ▪ Choice of investments ▪ (but cannot reduce contributions) 	<ul style="list-style-type: none"> ▪ Similar to Simple 401(k) but: <ul style="list-style-type: none"> ▪ Greater employee deferrals than IRAs or Simple 401(k) ▪ Employer can make additional contributions ▪ No limit on size 	<ul style="list-style-type: none"> ▪ Similar to Safe-Harbor 401(k) but complete flexibility in design subject to nondiscrimination requirements
Employees Covered	<ul style="list-style-type: none"> ▪ Must cover a non-discriminatory group ▪ Less than 100 employees 	Must cover a non-discriminatory group	Must cover a non-discriminatory group

Qualified Plan Approaches: Defined Contribution

	Simple 401(k)	Safe-Harbor 401(k)	401(k)
Employee Contributions	<ul style="list-style-type: none"> ▪ Lesser of \$11,500 or 100% of compensation 	<ul style="list-style-type: none"> • Lesser of \$16,500 or 100% of compensation 	<ul style="list-style-type: none"> • Lesser of \$16,500 or 100% of compensation
Employer Contributions	<ul style="list-style-type: none"> ▪ Annual choice of: <ul style="list-style-type: none"> ▪ 2% of pay or ▪ a dollar-for-dollar match up to 3% • No other contributions 	<ul style="list-style-type: none"> ▪ Annual choice of: <ul style="list-style-type: none"> ▪ At least 3% of pay or ▪ At least a dollar-for-dollar match up to 4% ▪ Maximum equal to lesser of \$49,000 & 25% of compensation in aggregate 	<ul style="list-style-type: none"> ▪ Any non-discriminatory formula; maximum equal to lesser of \$49,000 or 25% of compensation in aggregate

Qualified Plan Approaches: Defined Contribution

	Simple 401(k)	Safe Harbor 401(k)	401(k)
Distributions	<ul style="list-style-type: none"> Pre-Tax by April 1 of the year following age 70-1/2; Roth IRA: no required distributions Can receive prior to age 59-1/2 but subject to penalties 	<ul style="list-style-type: none"> Same as Simple 401(k) 	<ul style="list-style-type: none"> Same as Simple & Safe Harbor
Loans	<ul style="list-style-type: none"> Employer Discretion 	<ul style="list-style-type: none"> Employer Discretion 	<ul style="list-style-type: none"> Employer Discretion
Vesting	<ul style="list-style-type: none"> Always 100% vested 	<ul style="list-style-type: none"> Always 100% Vested in basic contributions 	<ul style="list-style-type: none"> Can select vesting schedule
Why Not Use	<ul style="list-style-type: none"> Administrative Complexity Limited employee & employer deferrals 	<ul style="list-style-type: none"> Administrative Complexity Greater employer contributions 	<ul style="list-style-type: none"> Administrative Complexity

Qualified Plan Approaches: Defined Benefit

	Traditional Defined Benefit
Why You might use	<ul style="list-style-type: none">▪ Maximum tax-advantaged savings▪ Flexibility in design subject to nondiscrimination requirements▪ Retention of employees
Employees Covered	<ul style="list-style-type: none">▪ Must cover a non-discriminatory group

Example: The required contribution to fund a 2% FAP formula might be:

3.6%-of-pay for a 30 year old;

6%-of-pay for a 40 year old, and;

12% for a 55 year old.

Qualified Plan Approaches: Defined Benefit

Traditional Defined Benefit

Employee Contributions

- Allowed on an after-tax basis, but usually none.

Employer Contributions

- Amount required to fund benefit.
- Maximum annual benefit of \$196,000 = \$2.0 million at 65.

Qualified Plan Approaches: Defined Benefit

Defined Benefit

Distributions ▪ None until separation of employment

Loans ▪ Employer Discretion

Vesting ▪ Can select vesting schedule

Why Not Use ▪ The most complex
 ▪ Lack of contribution flexibility & predictability

Implementation

IRA

1. Set up an IRA for each employee (or have them set up)
2. Complete IRS Form
 - 5305 SEP
 - 5304 Simple or 5305 Simple
3. Let employees know about Plan (can use IRS form)
 - Employee salary reduction choices

Qualified Plan

1. Adopt a written Plan
 1. Individual (IRS Form 5300)
 2. Master or prototype
2. Communicate to employees
3. Establish a trust or custodial account
4. Annual 5500 Filing

Take-Away

- Consider using an IRA Approach: Payroll deduction, SEP or Simple unless you:
 - are a large employer greater than 100 employees
 - Want to maximize benefits/contributions to owners
 - Want to provide employees with maximum deferral opportunities
 - Want to create a powerful retention incentive
 - Have a healthy appetite for administrative expense and complexity