focus

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What could be simpler?

SIMPLEs make it easier for small employers to offer a retirement plan

Providing an employee retirement plan can be challenging, especially for smaller companies. But SIMPLEs — Savings Incentive Match Plans for Employees — are, as their name suggests, simpler to set up, contribute to and maintain than many other plans. Establishing a SIMPLE requires just a few steps and a nominal financial investment. And once it's up and running, a financial institution can handle much of the administrative work. Just as important, SIMPLEs allow employees to save for their retirement on a tax-deferred basis through payroll deductions.

The criteria

To offer a SIMPLE, your business must meet certain conditions. For example, you generally must have no more than 100 employees who earned $5,000 (or more) in compensation during the preceding calendar year. (All employees should be included in this tally, even if some don't meet the plan's eligibility requirements.) If your company starts a SIMPLE and then later grows to top the 100-employee mark, you may be able to keep the plan in effect for up to two more years.

Generally, you can't offer a SIMPLE in addition to another retirement plan. However, there are exceptions for employees covered under collective bargaining agreements and for companies that participated in an acquisition or disposition during the year.

Major decisions

You must decide whether your business will choose the financial institution to act as trustee for the plan, or whether employees will be able to choose their own financial institution for receiving their contributions. Only certain types of financial institutions, such as banks and some insurance companies, can be SIMPLE trustees.

The trustees agree to invest the plan contributions, typically in mutual funds. They also agree to provide employers with information on the plan each year.

Another decision involves choosing and executing the plan document. This step establishes the plan terms, such as eligibility criteria and employer contributions. Either IRS Form 5304-SIMPLE or IRS Form 5305-SIMPLE can be used for this purpose. The former is used if each participant selects the financial institution receiving his or her plan contributions. The latter is used if the business deposits all contributions at a financial institution it designates. Alternatively, some financial institutions have their own forms for employers to use.

You must also provide employees with information on the plan. The summary plan description uses plain language to explain, for instance, eligibility requirements, benefits provided, and the name and address of the trustee. Providing employees with copies of 5304-SIMPLE or 5305-SIMPLE can satisfy this requirement. Or, again, the financial institution may provide the summary plan description.

The right plan?

While SIMPLEs have many benefits (see main article), they also have some drawbacks. One is that the contribution limits are lower than those of some other retirement plans. For instance, in contrast to the SIMPLE's 2014 limits, employees participating in a 401(k) plan can defer up to $17,500 (with a $5,500 limit for catch-up contributions).

Another drawback is that SIMPLEs are less flexible than some other options. Employers must make annual contributions once they establish the plans, and the contributions have to fall within certain ranges.

Last, as with many retirement plans, early withdrawals can be expensive. Employees who take money from a SIMPLE before reaching age 59½ typically have to pay a 10% penalty on top of income tax on the amount withdrawn. (In limited circumstances, the penalty won't apply.) What's more, if the withdrawal occurs within the first two years of the employee's participation, the penalty jumps to 25%.

In addition, employees must receive an annual election notice outlining their ability to make contributions through salary reductions, as well as the employer's contributions. Again, Forms 5304-SIMPLE or 5305-SIMPLE may be used.

Employer contributions

Once your company establishes a SIMPLE, it must contribute to its employees' accounts. These contributions can take one of two forms:

1. The employer matches each employee's contributions up to 3% of their compensation, or
2. The employer contributes 2% of each eligible employee's compensation (up to a maximum compensation level of $260,000 in 2014). This contribution occurs whether or not the employee makes a contribution.

Each year, you decide which method you'll use, and then you must let employees know what you're doing.

Employee options

Employees don't have to contribute to their SIMPLEs, even if they're eligible. Those who decide to contribute can set aside up to $12,000 in 2014, although employees age 50 or older by the end of the tax year can add "catch-up" contributions of up to $2,500. The limits might go up for 2015; check with your tax and benefits advisors for the latest information.

Each year, you decide which employer-contribution method you'll use, and then you must let employees know what you're doing.

Both employer and employee contributions immediately vest completely with the employee. That is, once the money is in the account, it belongs to the employee.

It's so simple

Given the relatively low cost and time required to administer a SIMPLE, it can be a great benefit to offer to your employees. Your tax and benefits advisors can help determine whether a SIMPLE is right for you and, if so, walk you through the steps for setting one up.

Tax breaks you can get from Uncle Sam when caring for a parent

Providing care for a parent, grandparent or other older relatives can be rewarding. But it can also be expensive. Fortunately, some federal tax breaks can help ease the financial strain.

Claiming a parent as a dependent

While the term "dependent" typically prompts images of children, you may be able to claim a parent, in-law, grandparent or other relative as a dependent — the IRS term is "qualifying relative." For 2014, that means a potential exemption of $3,950.

Not surprisingly, certain requirements must be met. For instance, with some exceptions, the dependent can't have earned taxable income of more than $3,950 in 2014, excluding Social Security benefits and other tax-exempt income. He or she also can't file a joint tax return. And you must cover more than half of the dependent's costs for food, lodging, clothing, medical and dental care, and transportation, among other expenses.

The medical expense deduction doesn't apply to expenses paid or reimbursed by insurance or other sources, such as a Flexible Spending Account or Health Savings Account.

Let's look at an example. A daughter spends $5,000 to cover her father's expenses. The father also contributes $5,000 in Social Security benefits and $500 in tax-exempt interest to pay for his expenses. The daughter can't claim the father as a dependent, because her support wasn't at least half the total ($5,000 + $5,000 + $500 = $10,500).

If multiple siblings jointly provide support for a parent, only one can claim the deduction. But only the siblings as a group have to provide more than half the parent's support; the sibling claiming the exemption can individually provide less than half.

Even if all of the requirements are met, you might not enjoy the full $3,950 exemption. For example, the exemption begins to phase out when the taxpayer's 2014 adjusted gross income (AGI) hits $254,200 ($305,050 for married couples filing jointly).

The medical expense deduction

It's also possible to deduct some of the cost of a dependent's medical and dental expenses. The deduction is limited to the extent to which these expenses — when added to the medical and dental expenses incurred by you and any other dependents — top 10% of your AGI.

There's one exception, however: If you were born before Jan. 2, 1950, on your 2014 tax return, you can deduct medical and dental expenses that exceed 7.5% of your AGI.

The deduction doesn't apply to expenses paid or reimbursed by insurance or other sources, such as a Flexible Spending Account or Health Savings Account. But it does include health insurance premiums. It also can include some nursing home expenses.

The dependent care credit

You can employ this tax credit if it's necessary to pay someone to care for a parent while you work (or look for work). But keep in mind that the parent must be incapable of caring for him- or herself and must live with you for at least half the year. Payments for care can't go to your spouse or to another of your dependents.

Once these and other criteria are met, the credit can be worth up to 35% of qualifying costs for care up to a maximum of $3,000 for one dependent, or $6,000 for two or more dependents. However, the percentage is reduced based on your AGI, to a low of 20% if your AGI exceeds $43,000.

Maximizing your tax savings

As the size of our senior population grows and more children start taking care of their aging parents, it's important to know what tax relief may be available. Your financial advisor can help you decipher the tax code, so you can maximize your savings. ◈

Don't let excess liabilities rain down on you

An umbrella insurance policy can provide shelter

There are many reasons to consider an umbrella insurance policy. Just the word "umbrella" indicates that the policy's reach goes beyond standard homeowners and auto insurance, protecting you from excess liabilities. But many consumers don't understand just how valuable umbrella coverage can be.

Policy ins and outs

An umbrella policy provides an extra layer of insurance that comes into play once your homeowners or auto insurance policy limits have been met. Say a guest is injured tripping on your stairs, a driver in your household is at fault in an automobile accident or your dog bites a neighbor's child. In addition to medical and repair expenses, these events could lead to a lawsuit that might quickly exhaust your regular homeowners or auto coverage.

Even if you prevail in a legal proceeding, you'd likely run up a costly legal bill. Lose, and a settlement could wipe out your home and other assets — even a portion of your future earnings.

Of course, you could simply boost the coverage limits on your auto and homeowners insurance. But that would likely increase your premiums on both policies and still might not provide the protection you need.

Most umbrella policies cover incidents involving your home or automobile. And many cover claims that fall outside these policies' coverage. An umbrella policy might cover, for example, a lawsuit for slander resulting from an offhand comment made at a neighborhood gathering.

It's all about coverage

When a loss occurs, the first insurance policy against which claims will be made typically will be your primary homeowners or auto policy. Once that coverage is exhausted, the umbrella policy generally kicks in.

Most umbrella policies cover injuries to other parties, including guests in your home and motorists. Many also cover damage to property, including your vehicles, homes and other items. Finally, these policies usually cover the cost of defending yourself in a lawsuit and any settlements or payouts that result.

All the same, an umbrella policy isn't a potential blank check to cover any liability. For starters, many don't cover business incidents. If you operate a home-based business, for example, you'll want to obtain coverage separately. Similarly, few umbrella policies automatically cover employees on your property, such as cleaning people or child care providers.

The nitty-gritty

When calculating the needed amount of coverage, consider several factors. First, there's your net worth. The higher it is, the more coverage you'll want. In addition, consider the number and ages of drivers in your household. If you have several drivers, particularly if they're younger, go for more coverage.

Last, take a look at any items that might attract a lawsuit. For instance, if you have a backyard swimming pool, consider boosting the amount of coverage.

Many umbrella policies offer coverage starting at $1 million. Before assuming that $1 million is adequate, tally the value of your assets, including your home, personal possessions and investments. Your total may be considerably over $1 million. What's more, a settlement from a lawsuit could exceed your net worth. As a result, a higher level of coverage may be prudent.

When you've determined an appropriate level of coverage, review it every year or two. Why? Because, as the value of your assets changes, your coverage should follow accordingly.

Considering the cost

Umbrella policies can be relatively inexpensive. A $1 million policy might cost only a few hundred dollars annually. Premiums can vary, based on the amount of primary insurance coverage you have, where you live, and your driving record and credit history.

It typically makes sense to purchase umbrella coverage from the company that issued your homeowners and auto insurance policies. Most insurers offer discounts for purchasing multiple policies. In addition, buying the policies together will make it easier to coordinate coverage.

Peace of mind

The chances that you'll face a liability in excess of your standard homeowners and auto coverage might not be huge. But if you ever do, you'll likely find that purchasing umbrella insurance was one of the best decisions you ever made. And just knowing that you have such protection in place can give you invaluable peace of mind even if you never end up needing the coverage. ◈

Mission impossible?

How to manage the millennial generation

With millennials (the roughly 77 million Americans born during the 1980s and 1990s) composing an increasing share of the workforce, effectively managing them is critical. It helps to examine their work habits and attitudes, separating fact from fiction.

Perceptions and misperceptions

Millennials might not be as entitled and anti-business as they're often portrayed. Nearly two-thirds (65%) of respondents to a survey of millennials by Bentley University say being successful in a high-paying career or profession is an important goal. Most are willing to sacrifice to achieve these goals; for instance, 68% would relocate.

Like most employees, millennials are concerned about pay; after all, many graduate with hefty student loans. Most millennials responding to a 2014 study by *Business Insider* and *News to Live By*, a career advice site, ranked pay as the most important factor in a job.

Creating varying paths and time frames for advancement may help retain these workers.

Management tips

To be sure, a few practices may resonate more with millennials than with older workers. Some can be put in place without turning the workplace upside down:

Feedback. In a survey by Achievers, a provider of employee success software, 71% of millennials said they expect immediate, rather than annual or semiannual, feedback. That sounds daunting and unrealistic. However, the feedback can be as simple as a quick e-mail or a brief conversation about their progress on a project and its relation to the company's mission.

Involvement with causes. Knowing a company was involved in "cause work," or programs that help people and communities, influenced job decisions for more than half of millennials, according to another survey by Achievers.

So consider communicating how your company contributes to the world through its products and services — a catering company, for instance, can discuss how its services help clients celebrate milestones in their lives. You also can implement manageable volunteer initiatives, such as team outings to local food pantries.

Multiple ways to the top. Millennials aspire to succeed both at work and at home; nearly 20% of fathers in the Bentley study said an ideal career would provide time off to be with their children. Creating varying paths and time frames for advancement may help retain these workers. That might mean, for instance, allowing parents to reduce their hours while their children are young, yet remain eligible for promotions.

Mission possible

Millennials, like every generation, will leave an imprint on the work world. At the same time, their goals often are similar to those of their older colleagues. Distinguishing truth from hype and, when appropriate, implementing policies to engage and retain these workers can boost your company's overall performance. ◈