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Retirement plans for closely held businesses

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Retirement plans for closely held businesses

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Wells Fargo Advisors Financial Network, LLC

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Seek the advice of tax and legal advisors

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Plan design is one of the keys to a successful retirement plan

Choices facing business owners

- IRA-based plans
  - SEP IRA
  - SIMPLE IRA
- Qualified plans
  - Defined contribution
    - 401(k)
    - Profit sharing
  - Defined benefit

Tax savings

- Employer contributions are tax-deductible for the business.
- Tax credit available for new plans for certain employers.

IRA-based plans

- SEP IRA and SIMPLE IRA
  - Simplicity – Minimal paperwork and no IRS filings
  - Flexible employer contributions
  - Lower administrative cost alternative

SEP IRA and SIMPLE IRA eligibility

- SEP IRA plans are available to businesses of any size and structure.
- SIMPLE IRA plans are limited to businesses …
  - With no more than 100 employees receiving at least $5,000 in compensation during the previous calendar year
  - That have no other retirement plan in the year the plan is established

SEP IRA and SIMPLE IRA simplicity

- One-page adoption agreement
- Eligibility
  - With a SEP IRA, you can exclude employees who:
    - Are under age 21
    - Earn less than $600 (subject to cost-of-living adjustments)
    - Not employed by your business three out of the last five years
  - With a SIMPLE IRA, you can require that employees:
    - Earned at least $5,000 in the two preceding calendar years
    - Expected to earn $5,000 in the current calendar year
- IRAs for each participant
- Reporting requirements
- Fees

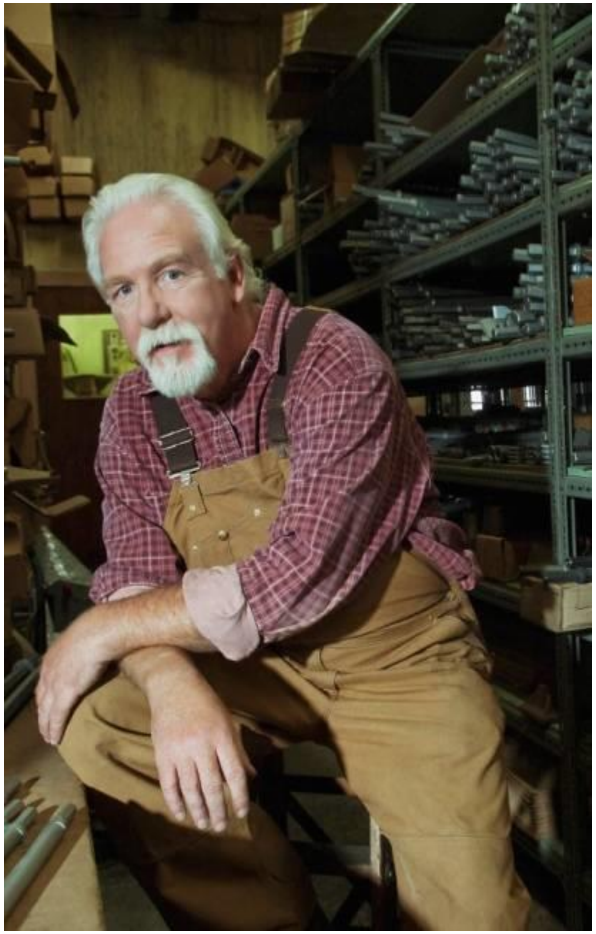
SEP IRA flexibility

– Contributions
  - Employer only contributions
  - Can vary from year to year
  - Maximum annual contribution per participant:

2019
25% of compensation ($280,000 maximum)
$56,000 maximum contribution

SEP IRA summary

- Best-suited for business owners who want simplicity
- Ideal for companies with volatile profits
- Must be willing to contribute for part-time employees
- Company contributions only
- Provide contribution to employees that are immediately vested



SIMPLE IRA flexibility

- For 2019, maximum annual employee contribution: $13,000 ($16,000 if aged 50 or older)
- Maximum annual employer contribution:
  - Matching: Up to 3% of compensation
  - Nonmatching: 2% of compensation

SIMPLE IRA flexibility (continued)

- For example*:
  - Participant younger than age 50:

    $13,000 + $3,000 = $16,000
  - Participant aged 50 or older:

    $13,000 + $3,000 + $3,000 = $19,000

This example is hypothetical and provided for informational purposes only. For this hypothetical example the participant earns $100,000, defers $13,000 and the company makes a 3% matching contribution.

SIMPLE IRA summary

- Best-suited for businesses that want to:
  - Allow employees to save for retirement
  - Have minimal administration responsibilities and costs
  - Share in responsibility with the employees of funding their retirement without considering a vesting schedule

SEP IRA and SIMPLE IRA distributions

– Taking distributions is similar to a traditional IRA.

– Employee can take withdrawals at any time.

– Account holder is responsible for:

  - Taxes on amount withdrawn
  - Potential IRS penalty on premature distributions

– Mandatory distributions start at age 70½.

Withdrawals are subject to ordinary income tax and may be subject to a federal 10% penalty if taken prior to age 59½.
For SIMPLE IRAs the federal penalty increases to 25% if taken within two years of the first contribution being made into the participant account.

Defined contribution plans

– Profit Sharing

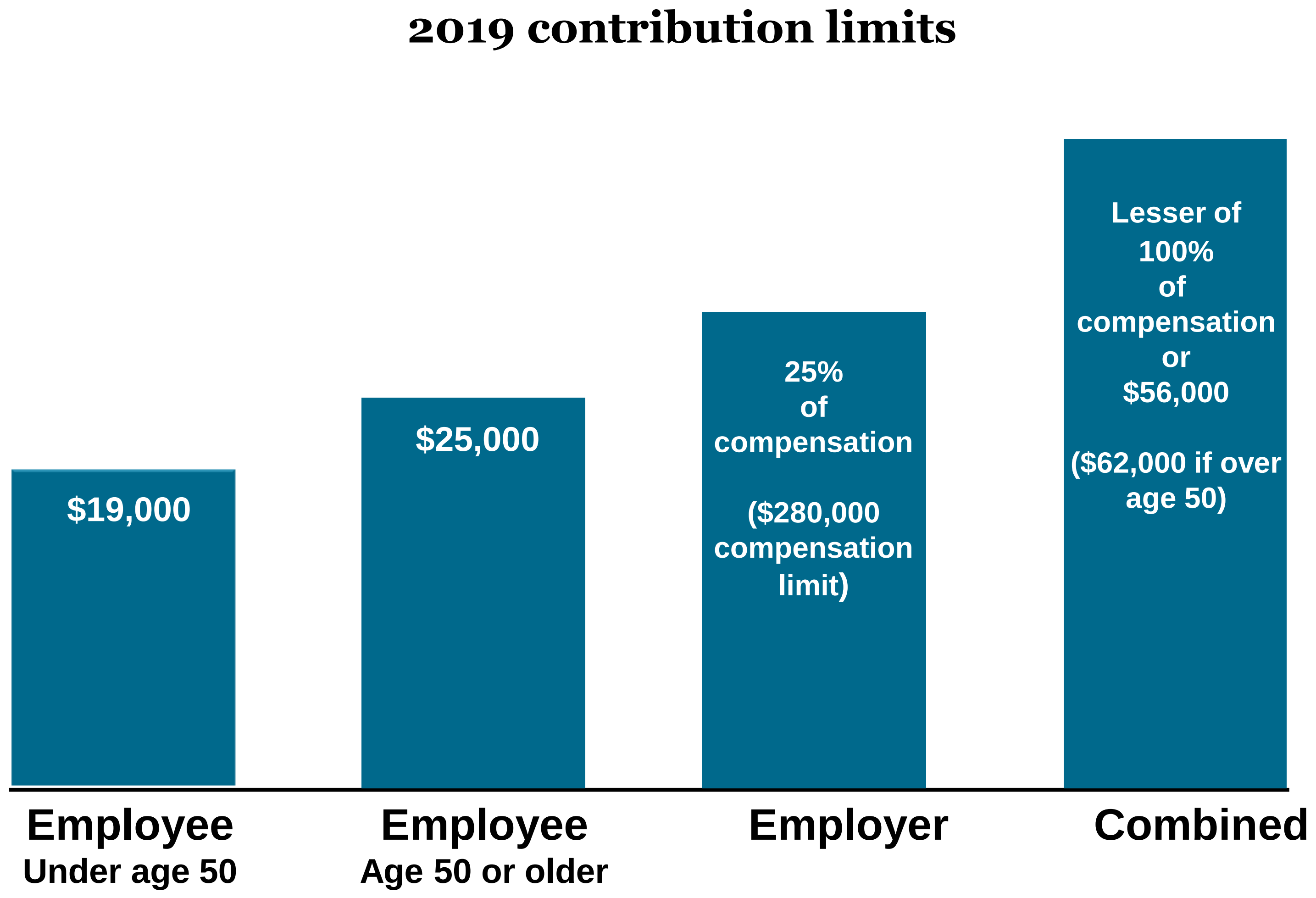
– Money Purchase

– 401(k)

401(k) flexibility

- Pretax dollars contributed have potential to grow tax deferred
- Greater flexibility
  - Employer and employee contributions
  - No business-size limitation
  - Advanced features, such as:
    - Vesting schedules
    - Part-time employee eligibility (defined as working less than 1,000 hours per year)
    - Loans

401(k) flexibility (continued)



Roth 401(k) feature

- Contributions are deferred from salary
- Similar to traditional 401(k), except:
  - After-tax contributions
  - Potentially tax-free withdrawals*
- Comparable to a Roth IRA, except:
  - No income restrictions
  - Higher contribution limits
  - Mandatory distributions at age 70½

For withdrawals to be qualified (tax free), you must be age 59½ or older and at least five years must have passed since you made your first contribution.

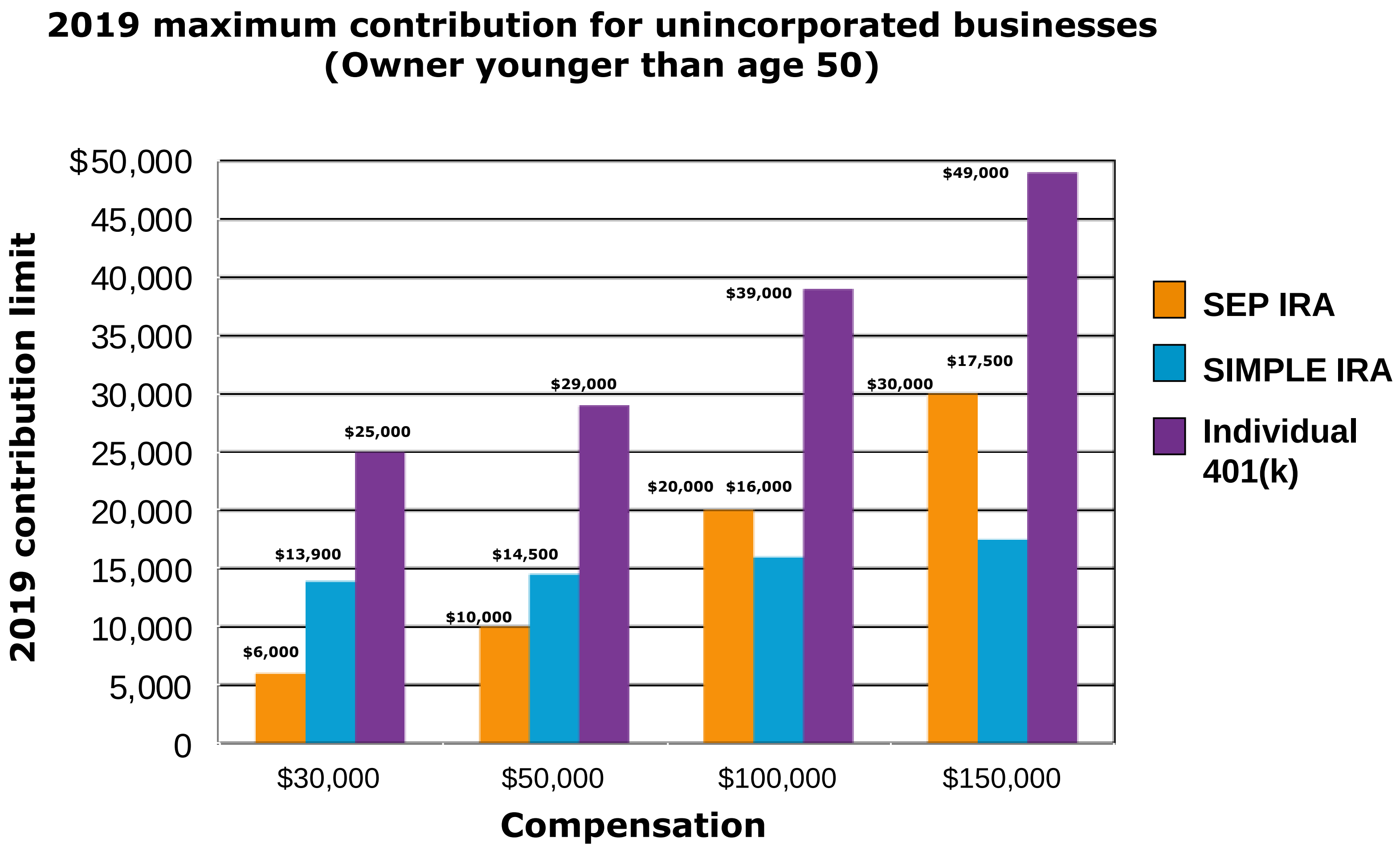
401(k) considerations

- Discrimination testing (may limit what owners and highly compensated employees can defer)
- A safe harbor 401(k)
  - Avoids this testing
  - Employer must make a minimum, fully vested safe harbor contribution
    - Matching contribution
      - 100% match on the first 3% and a 50% match on deferrals between 4% and 5%
      - Enhanced formula (100% up to 6% is maximum allowed)
    - Nonelective contribution
      - Minimum 3% contribution regardless of participation

401(k) considerations (continued)

- A safe harbor 401(k)
  - QAQA (Qualified Automatic Contribution Arrangement)
    - Enhanced safe harbor 401(k) feature
      - Permits 2 year vesting schedule on contributions
      - Must utilize automatic enrollment and escalate annual deferrals

Individual 401(k) advantages



Contributions in this example are based on the business owner's adjusted net business income

401(k) considerations

- The following must be filed annually:
  - IRS Forms 5500/5500-SF
  - Applicable schedules
- Your business might incur:
  - Increased administrative costs
  - Fiduciary responsibilities

401(k) considerations (continued)

- Withdrawals are subject to:
  - Ordinary income taxes
  - A potential federal 10% premature distribution penalty
- Mandatory distributions may be required at age 70½.

Defined benefit plan

- Helps business owner work toward retirement goals
- Provides permanent and ongoing retirement alternative

Defined benefit plan (continued)

– Best-suited for a business with an owner who is:
  – Age 40 or older
  – Willing to commit to large contributions on an annual basis
  – Intends to offer a permanent, ongoing retirement plan

Defined benefit plan eligibility

- Can exclude employees who:
  - Are younger than age 21
  - Have completed less than two years of service
  - Work fewer than 1,000 hours per year
  - Are covered by a collective bargaining agreement
  - Are nonresident aliens receiving no U.S.-earned income

Defined benefit plan considerations

– More complex to administer

– Requires services of an enrolled actuary

– Pooled account

– No employee contributions allowed

– Little flexibility

– Higher costs

Confidential retirement plan study

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Confidential Retirement Plan Study

Business name

Subfirm ☐ PCG-001 ☐ WBS-020 ☐ FiNet-072 Rep code

Financial Advisor name

Branch location (city, state) Branch phone

Financial Advisor email address

We want to know your thoughts

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Presentation Content:

☐ Excellent ☐ Good ☐ Poor

Speaker's Presentation:

☐ Excellent ☐ Good ☐ Poor

Overall Length of Presentation:

☐ Just Right ☐ Too Long ☐ Too Short

Other Comments:

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Best time to call:

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Occupation:

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☐ I would like more information on the following:

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topics such as Fundamentals of Investing, Saving for

Income.

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