Retirement Planning—Options for Women Business Owners

You're an entrepreneur and you're not looking back. You've opened your own business, whether alone or with other partners, and you've found some success. You've hired employees, or not, depending on your business and now you're thinking about retirement, not just for you, but also for any employees you may have.

Many employers find that one way to attract and keep good employees, especially executives with critical skills, is to offer competitive retirement plan packages along with a buffet of other benefits. Yet, employee-sponsored retirement plans are often unavailable to employees working in small private companies and can lead to poor employee retention.

What business owners need to know is that sponsoring a retirement plan, not just for their employees but also for themselves, is really quite easy. Perhaps you think you must *fund* employee retirement plans and that plan sponsoring requires lots of complicated paperwork. Or maybe you're perplexed about compensating top executives without pushing them into an even higher income tax bracket. But don't fear. Help, and advice, from starting and managing retirement plans to planning for the day you retire, is here.

Qualified Plans: Something for Everyone

A multitude of retirement plan options are available as benefits packages or customized products to suit your company's needs. Currently available qualified retirement plans include defined benefit plans, 401(k)s, Savings Incentive Match Plans for Employees (SIMPLEs), Simplified Employee Pensions (SEPs), profit-sharing plans, and money purchase plans.

The Employee Retirement Income Security Act (ERISA, amended in 1974) governs most private pension and benefit plans. ERISA has a special focus on making sure that qualified retirement plans do not discriminate in favor of highly paid employees.

Specifically, ERISA deals with qualified retirement plans, with the term "qualified" meaning employers and employees can make tax-deductible contributions up to certain limits to employees' retirement accounts. "Qualified" also means the earnings on contributions employees make to their own accounts, within certain limits, are tax deferred until withdrawn at retirement.

Traditional pension plans, also known as defined benefit plans, have declined in numbers over the years with the increasing popularity of defined contribution plans, such as the 401(k). But defined benefit plans can be a nice choice for small business owners, particularly for those who are nearing retirement and are looking to accelerate their savings program. Defined *benefit* plans focus on the end result so that employees, or plan participants, have a defined or fixed income at retirement. Defined *contribution* plans focus on the amount contributed, so the level of income at retirement depends heavily on the employee's management of plan funds. The *type* of plan determines who contributes—employer, employee, or both. Administration, funding, eligibility, and vesting requirements also differ by plan.

A Look at Nonqualified Plans

Nonqualified plans, on the other hand, offer no immediate tax benefit to the employer and, instead, focus on deferring compensation for a select group of employees, usually highly paid executives, until retirement, death, or disability. "Nonqualified" essentially means participants and employers receive no immediate tax advantages.

Payment for services rendered is delayed to limit the executive's tax liability during peak earning years. The provisions often intentionally tether the employee to the firm, giving you a better chance to retain good and potentially irreplaceable employees. Such plans are most often governed, not by Federal regulation, but by a legal contract between employer and employee.

Stock options and creative uses of life insurance are common ways to fund these plans. Special provisions, such as rabbi trusts, can be used to segregate funds in nonqualified plans that an employer has agreed will be paid out in the future.

No one plan is inherently better than another; the right choice for you depends on your specific circumstances. Since the risks and potential rewards differ between defined benefit and defined contribution plans, it would be in your best interest to make sure you fully understand the benefits you want to offer your employees and the funding resources you desire for your own retirement.

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