



Investment Insights

Kevin Kennedy

Selecting a Retirement Plan for Your Company

With the tax deadline rapidly approaching, we've had many clients asking for ideas on how they can reduce their taxable income. One of the best ways to accomplish this is by contributing to a company-sponsored retirement plan. Contributions are typically made with pre-tax dollars, thus reducing your taxable income and lowering your tax bill.

If you are a business owner, you have numerous choices available when it comes to establishing a retirement plan. Whether you are a sole proprietor, or have a company with hundreds of employees, there is likely a plan that can meet your goals for lowering taxes and funding your retirement. Company-sponsored retirement plans also have the added benefits of promoting employee loyalty and enhancing the image of your company.

Establishing and maintaining a retirement plan does not have to be a time-consuming or expensive undertaking. As the business owner, depending on the type of plan you choose, your financial and time commitment to the plan can be very minimal. Below are three steps to help get you started in selecting a retirement plan for your company.

One of the first steps in finding the right type of retirement plan for you is to make your "wish list". Your wish list should describe what the intent or objective of your plan is, and what features it would have. Is your primary goal to reward your employees, attract new employees, or take care of the owners? If your company's income fluctuates year to year, you may desire some flexibility in annual contribution amounts. You may want the plan to be funded by employer contributions, employee contributions, or a combination of both. Although there may not be a way to accommodate all of your wishes into a plan, this step will help you prioritize your goals for a new retirement plan.

The next step is to complete an employee census. Take inventory of how many employees you have, their ages, their length of tenure, and their level of compensation. All of these factors can play an important role in what type of plan will work best for your situation.

The final, and most important, step is to contact a retirement plan sponsor and/or a plan administrator. Plan sponsors are typically brokerage or insurance companies, and they often have simple plans that can meet your needs with minimal costs. Plan administrators are very useful in helping to design more complex plans, or plans that need to be customized in some way. Depending on your wish list, and the structure of your company, you may need the services of one or both of the above parties. A key factor to consider when selecting a plan sponsor or plan administrator is the level of service they provide, as establishing and maintaining a retirement plan does involve mandatory communication with your employees about the plan and possible filings with the IRS annually. Ask other company-owners in your area for referrals, or interview a couple of local providers to find one that you feel comfortable with.

A timely fact to weight when considering establishing a company-sponsored retirement plan: for companies with fewer than 100 employees, the IRS is offering a tax credit of 50% of the first \$1000 of expenses for establishing and maintaining a new plan. This tax credit is available for the first three years of existence on all new plans. As an added bonus, the expenses are also fully tax-deductible for your company. This law was part of the 2001 tax reform bill, and is set to expire in 2010 unless extended by Congress. For small business owners, this can offset a large portion of any costs in setting up a new plan.

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