

# FINANCIAL *fitness*

By RWM Wealth Advisor Sandy Carlson CFP®, CPA, CDFA™, QKA

## Choosing a Retirement Solution for Your Business

Owning a business is a considerable responsibility that includes juggling business development and growth while overseeing the operating budget and employees. It is a challenge to get everything done and should come as no surprise that business owners have been unable to allocate the proper amount of time to the company's retirement plan design.

### The Importance of Saving

It is estimated that between 70 to 90 percent of preretirement income will be needed to maintain an existing standard of living in retirement. As a business owner, you play an important role in providing a vehicle through which your employees and yourself can save for retirement. A retirement plan can also help you attract and retain talented employees while offering considerable tax savings.

### What Retirement Plan is Optimal for your Business

There are a multitude of retirement plans to choose from making the selection process cumbersome and confusing. Some small-business retirement plans are better for sole proprietors, while others may be more appropriate for businesses with up to 100 employees. Before setting up a retirement plan, it is often best to consult with an employee benefits expert who can review your individual situation taking into account items such as employee turnover, projected contributions by employees, as well as employer contributions to design a plan that best accomplishes your stated objectives.

Small-business owners usually opt to set up a 401(k) plan because that is the plan they are most familiar with and can be set up to allow for discretionary employer contributions; meaning the amount contributed each year to the plan is not fixed. The plan must provide a definite formula for allocating the profit sharing contribution among the employees. This is where working with an employee benefits expert can be beneficial to help the small business owner determine the optimal formula which can be allocated on a pro rata basis based on compensation, age-weighted or cross-tested.

### Age-Based and New Comparability Plans

The allocation of contributions under a profit-sharing plan can be weighted for age or other factors, and almost any formula of allocation can be used, as long as it complies on an annual basis with the general nondiscrimination test requiring that contributions or benefits have a uniform relationship to compensation. Regulations, therefore, allow the employer to conduct the discrimination test on the basis of the benefits to be provided by the plan, rather than on the basis of contributions.

Age-based profit-sharing plans consider the age of the employees, in addition to salary. As a result, a larger portion of the contribution can be allocated to older employees, even if they earn the same compensation as younger employees. The age-based plan does not discriminate against younger employees, as the contribution allocation considers the anticipated retirement benefit when the employee retires. The additional contributions allocated to older employees make up for the compressed investment time horizon. Younger employees have a longer period of time until retirement, which allows account balances to grow an equivalent anticipated retirement benefit level.



Age-based plans are different than the new comparability ("Cross-Tested") plan. The new comparability plan looks at age, compensation, and employee groups. The employee group factor allows the plan to use different contribution formulas for each employee group.

### Setting Up or Amending a Qualified Plan

The employer is responsible for setting up and maintaining the qualified plan. A tax credit for small employers is available that will enable you to claim a credit for part of the ordinary and necessary costs of starting a qualified plan. The credit equals 50 percent of the cost to set up and administer the plan, up to a maximum of \$500 per year for each of the first 3 years of the plan.

If you already have a qualified plan in place, now is a great time to review your plan provisions to make sure that they are providing you with the optimal allocation of your contributions.

The Qualified 401(k) Administrator (QKA) certification is awarded by the American Society of Pension Professionals & Actuaries (ASPPA), a national professional society of benefits professionals. The QKA credential is offered for retirement plan professionals who typically assist employers and consultants with the recordkeeping, non-discrimination testing and administrative aspects of 401(k) and related plans. To become certified, professionals must have a minimum of two years of pension-related experience and pass a rigorous series of examinations.

**Sandy Carlson has over eighteen years of wealth management experience including income taxation, retirement planning, executive compensation planning, insurance, banking, trust administration and estate planning. She is a Certified Divorce Financial Analyst™ (CDFA) and also holds the QKA designation by the American Society of Pension Professionals & Actuaries. She is President-Elect of the Financial Planning Association, a Tax Instructor in the CFP Program at Queens University, and is a member of the Charlotte Estate Planning Council. Sandy values getting to know her clients and providing creative, integrated solutions for accumulating, preserving and transferring wealth.**



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