

There are a variety of retirement plans that are perfect for sole proprietors or small business owners. Here is a brief explanation of the different options. In order to be sure which plan is right for you and your business, you should consult a financial advisor.

SEP-IRA Can be put in place for small groups, under 10 people. A SEP IRA allows a contribution of **up to 25%** of compensation up to a maximum of \$44,000 for 2006. Employees do not contribute to a SEP IRA because they are **100% employer funded**. In general, contributions into a SEP IRA are 100% tax deductible to the employer. If contributing 25% to the plan, the owner must also contribute 25% of his/her eligible employee's income to their plans.

Example: If owner is making \$100,000 and his/her eligible employee makes \$20,000, the owner could contribute \$25,000 to his/her plan, but would also have to contribute \$5000 to his/her employee's plan.

COSTS- Typically \$15/year per participant. Fee can become smaller based on assets.

SIMPLE-IRA A Simple IRA is structured so that the **employee and employer can both make contributions**. A SIMPLE IRA allows for an employee contribution of up to \$10,500 per year. This contribution is not based on a percentage of salary and can equal 100% of salary. This plan **does require** employer contributions. While this is the case, the employer has two options. Option 1: The employer can contribute 2% of income per employee regardless of whether the employee is participating in the plan. Option 2: The employer can offer a dollar for dollar match for the first 3% of compensation saved by employees.

Example:

Option 1: If employer makes \$100,000 this year, he/she can contribute \$10,500 plus an additional \$2000 for a total of \$12,500 to his/her plan. For his/her employee, making \$20,000/year, he/she would only be required to contribute \$400 for the year to the employee's plan.

Option 2: Employer would be able to contribute \$13,500 (\$10,500 plus a 3% match) for him/herself, and would only be required to contribute to his/her employee's plan if his/her employee contributed as well. Assuming the employee put in 3% of his/her salary, the employer would be required to contribute \$600 for that employee.

COSTS- Fees vary. Typically \$15 per year, per participant. Once individual account reaches \$50,000, \$15 fee is waived.

WorkInvest is a program by RSG Partners Financial & Insurance Services, Inc.

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401k

The 401k allows for **both employer and employee contributions**. An employee can contribute up to \$15,500 to their plan in 2007. In addition the employer may also contribute. While able to, **the employer is not required to**. There are a few different ways an employer may contribute. The first option is as a match on employee contributions up to a certain percentage. For instance, dollar for dollar up to 3%.

Example: If we set the match at 3% of contributions, the employee would be able to put away \$15,500 plus an additional 3% of their salary as an employer match. For an employee, if that employee was contributing, the employer would be required to contribute up to 3% of their income.

As an alternative, the employer may, at his/her discretion contribute by way of profit sharing. The profit share amount would be determined at the end of the year and would be distributed to each employee based on their salary.

Example: At the end of the year the employer has profits in the amount of \$20,000. He/She decides to use those funds to offer profit sharing for the employees. If the employer is making \$100,000 and his/her employee is making \$20,000 the company has a total income paid of \$120,000. Since the employer makes 83% of the income from the company, he/she would be entitled to 83% of the profit share, or in this example, \$16,600. The employee would receive the other 17% or 3,400.

COSTS- Fees vary significantly based on number of employees and plan assets. One inexpensive plan available has the following cost structure:

- \$100 one time set up fee
- \$250 Annual Maintenance Fee
- \$25 participant fee (per participant)

Single K Plan This plan is for **independent contractors or sole proprietors with no employees**, or with only part time or seasonal employees. The single 401k plan allows an individual to contribute up to \$44,000 per year. The initial \$15,500 is considered the individuals employee match, the additional \$28,500 is contributed as a percentage of net profit, 20%.

Example: A small business owner with no employees makes \$100,000/year. He/she contributes \$15,500 to the plan in the form of employer contributions. After deductions, the employer's net profit is \$30,000. Since the employer is able to contribute 20% of net profit, they are able to contribute an additional \$6,000 for a total of \$21,500

Costs- costs may vary but start at \$15 per plan participant per year.

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