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Business Retirement Planning

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Business Retirement Planning

It doesn't matter how large or small your company is, how much you can afford to contribute or whether you're an owner or an employee.

A retirement plan can provide a number of valuable benefits for you and your company, including:

- Significant tax advantages, for company and employees
- A competitive edge in recruiting and retention
- Incentives for your employees to boost profitability

Designing a plan to fit your company's needs can be complicated by the numerous financial, tax and legal considerations, so be sure to get professional advice. Here is an overview of some popular plans.

Qualified vs. Non-Qualified

"Qualified retirement plans" provide employers with tax deductions for their contributions and employees with tax deferral on contributions and earnings until funds are distributed. In some cases, distributions from qualified plans also receive favorable tax treatment. As a trade-off, qualified plans must conform to a number of IRS requirements, one of which is that they be "non-discriminatory."

"Non-qualified retirement plans" do not have to comply with IRS requirements, so they are often used to provide benefits to owners and key employees and/or to motivate certain employees to reach established goals. The trade-off is that the employer may not deduct

contributions when they are made, only when employees receive them. Although the varieties of non-qualified plans are numerous, here are two fairly common types:

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Non-Qualified

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Deferred Compensation

With this type of plan, employees postpone receiving a portion of their compensation until a future year. They also defer the tax on the compensation until they receive it, which may allow them to shift the income to a post-retirement year when their tax rate may be lower. In many such plans, employees do not reduce their current wages, but defer future increases – so there is no immediate budget impact to the employee’s family.

Although these plans are fairly simple, it is critical that the deferred compensation agreement be formalized in a written agreement before the wages are earned.

Phantom Stock

These plans allow you to compensate key employees as if they owned stock, without actually giving them stock. With a phantom stock plan, employees receive “units” that are tied in value to the company’s stock, but carry no ownership or voting rights.

For example, you might award $10,000 in phantom stock to an employee when your stock is worth $1,000 per share. If the company’s stock triples in value over the next 10 years, your employee’s holding triples in value. When he or she retires, you would pay out the sum in accordance with your plan – in a lump sum or series of payments. At that time, your payments would be deductible.

Money Purchase Plans

Although similar to profit sharing plans, money purchase plans allow the owner to make larger contributions. The trade-off is reduced flexibility: Required annual contributions that are based on a fixed percentage of eligible compensation.

Profit Sharing

Many owners feel especially comfortable with profit sharing plans because of their flexibility. Based on each year's results, the company can decide how much – or how little – to contribute to the plan.

The easiest way to allocate the contribution among participants is proportionally – within certain limits – based on their salaries. However, to make the plan better for the owner, the plan may consider Social Security and/or the age of the participants. When either factor is designed into the plan, a company can typically make a proportionately larger contribution to owners and other older or highly compensated employees.

Profit Sharing and Money Purchase Combined

For many owners, this combination provides an ideal plan. The fixed money purchase portion is set low, perhaps at 10% of compensation. The profit sharing portion gives the option to contribute an additional 15%. In a bad year, contribute just the money purchase portion. In good years, increase the contribution up to a limit. There are even provisions in the code permitting limited use of prior unused contribution amounts.

The Popular 401 (k) Plan

Since their introduction, 401(k) plans have become the most frequently installed qualified plans. Employees choose between receiving all their compensation now or deferring some into this voluntary plan. Their contributions are limited to the lesser of a percentage of earnings specified in the Safe Harbor 401(k) or $12,000 (as indexed for 2003).

Highly compensated employees (as defined in the regulations) may have a further limit on their contributions. Employers are not required to contribute, but they may contribute a discretionary amount periodically or match employees' contributions based on a formula.

Defined Benefit Plans

If your goal is to benefit mainly older, highly compensated employees with substantially longer terms of service than the rest of the work force, a defined benefit plan could be your best bet. Unlike the other qualified plans discussed in this section, a defined benefit plan is generally designed to provide a fixed annual benefit up to a current maximum of $160,000. There is considerable latitude in setting up a defined benefit plan. However, once the plan is established, contributions to fund the projected benefits are required.

Phantom stock plans are a form of a Deferred Compensation and does not represent equity ownership in the Company. Phantom stock plans may be subject to either ERISA and/or IRC Section 409A depending upon the structure of the plan. Companies should seek guidance from qualified advisors if they wish to avoid these regulations.

The Feliciano Financial Group has been in business since 1983 serving individuals, families, businesses and professionals throughout Texas. Our open and process-driven, client-centered approach, has helped make us one of the fastest growing and established financial services firms in Texas.

Our Commitment to You

- To conduct our business according to high standards of equity, honesty and fairness.
- To provide competent, prompt, client focused service which, in the same circumstances, we would expect for ourselves.
- To treat all clients with fairness and equity, to assure the best value possible.
- To remain your life-long financial partner to take care of your ever-changing needs.
- To help you reach your life's financial goals by understanding what is important to you.

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