The maximum amount of salary deferrals an employee can contribute is $11,000 in 2002 and $12,000 in 2003. Employers also may contribute matching contributions to a 401(K) plan, usually dollar-for-dollar on an employee's salary deferrals up to a percentage of the employee's pay.

While more complex, 401(k) plans offer higher contribution limits than SIMPLE IRA plans and IRAs, allowing employees to potentially accumulate greater savings.

Employers also may make profit-sharing contributions to a plan that are unrelated to any amounts an employee chooses to contribute. The amount of these contributions is often set as a percentage of employee's pay; however, the employer can change the percentage or amount from year to year. A plan may combine these profit-sharing contributions with 401(k) contributions (and matching contributions).

Payroll Deduction IRAs

Even if an employer does not want to adopt a retirement plan, it can allow its employees to contribute to an IRA through payroll deductions, providing a simple and direct way for eligible employees to save. The decision about whether to contribute, and when and how much to contribute to the IRA (up to $3,000 for 2002 through 2004) is always made by the employee in this type of arrangement.

Many individuals eligible to contribute to an IRA do not. One reason is that some individuals wait until the end of the year to set aside the money and then find that they do not have sufficient funds to do so. Payroll deductions allow individuals to plan ahead and save smaller amounts each pay period. Payroll deduction contributions are tax-deductible by an individual to the same extent as other IRA contributions.

To Find Out More ...

The following pamphlets and other pension-related publications are available for small businesses:

- *Simplified Employee Pensions (SEPs) - What Small Businesses Need to Know*
- *Savings Incentive Match Plans for Employees of Small Employers (SIMPLE) - A Small Business Retirement Savings Advantage*

Contact Information:

Publication Hotline: 1-800-998-7542
(also request a list of publications here)

Internet address: http://www.dol.gov/dol/pwba

For more information contact:

U.S. Department of Labor
Pension and Welfare Benefits Administration
(202) 693-8664
www.dol.gov/dol/pwba

U.S. Chamber of Commerce
Business Information and Development
(202) 463-5381
www.uschamber.com

Small Business Administration
Answer Desk
(800) 827-5722
www.sba.gov

For information on the tax aspects of these plans, contact the Internal Revenue Service:

www.irs.gov/ep

This pamphlet constitutes a small entity compliance guide for purposes of the Small Business Regulatory Enforcement Fairness Act of 1996. This brochure does not constitute legal, accounting or other professional service. It is a joint project of the U.S. Department of Labor, the U.S. Small Business Administration and private-sector partners. Its publication does not imply endorsement of any cosponsor's or participant's opinions, products or services.

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EASY RETIREMENT SOLUTIONS

for small business owners

Question:

I'm a small employer, and I'm considering a retirement plan for my workers. But I don't want to do anything too complicated. Are there simple options for employers like me?

Starting a small business retirement savings plan can be easier than most business people think. There are a number of retirement options that provide tax advantages to both employers and employees.

Why save?

By starting a retirement savings plan, you will help your employees save for the future. Retirement plans may also help you attract and retain a qualified pool of employees and offer you business tax savings. You will help secure your own retirement as well. What's more, you will be joining more than one million small businesses with 100 or fewer employees that offer workplace retirement savings plans.

Experts estimate that Americans will need 60 to 80 percent of their pre-retirement income — lower income earners may need up to 90 percent — to maintain their current standard of living when they stop working. So, now is the time to look into retirement plan options. As an employer, you have an important role to play in helping America's workers save.

A Few Pension Facts

Most private-sector retirement plans are either **defined benefit plans** or **defined contribution plans.** Defined benefit plans promise a specified benefit at retirement, for example, $100 a month at retirement. The amount of the benefit is often based on a set percentage of pay multiplied by the number of years the employee worked for the employer offering the plan. Employer contributions must be sufficient to fund the promised benefit.

Defined contribution plans, on the other hand, do not promise a specific amount of benefit at retirement. In these plans, employees or their employer (or both) contribute to employees' individual accounts under the plan, sometimes at a set rate (such as 5 percent of salary annually).

Small businesses may choose to offer a defined benefit plan or a defined contribution plan. Many financial institutions and pension practitioners make available both defined benefit and defined contribution "prototype" plans that have been pre-approved by the IRS.

Below are explanations about the defined contribution options— SIMPLE IRA plans, SEPs, 401(k) plans, and payroll deduction IRAs. Other types include employee stock ownership plans and money purchase plans.

All retirement plans have important tax, business and other implications for employers and employees. Therefore, you may want to discuss any retirement savings plan with a tax or financial advisor.

SIMPLE: Savings Incentive Match Plans for Employees of Small Employers

This savings option for employers with 100 or fewer employees involves a type of individual retirement account (IRA) and is the result of the Small Business Job Protection Act of 1996.

A SIMPLE IRA plan allows employees to contribute a percentage of their salary each pay check and to have their employer contribute also. Under SIMPLE IRA plans, employees can set aside up to $7,000 in 2002 and $8,000 in 2003 by payroll deduction. Employers either match employee contributions dollar for dollar — up to 3 percent of an employee's wage — or make a fixed contribution of 2 percent of pay for all eligible employees.

SIMPLE IRA plans are easy to set up. You fill out a short form to establish a plan and ensure that IRA accounts are set up for each employee. Much of the paperwork is done by the financial institution that handles SIMPLE IRA plan accounts, however, and administrative costs are low.

Employers may choose either to permit employees to select the SIMPLE IRA to which their contributions will be sent, or to send contributions for all employees to one financial institution (which will forward contributions of employees who elect a different SIMPLE IRA).

Employees are 100 percent vested in contributions, decide how and where the money will be invested, and keep their SIMPLE IRA accounts even when they change jobs.

SEPs: Simplified Employee Pensions

A SEP allows employers to set up a type of individual retirement account — known as a SEP-IRA — for themselves and each of their employees. Employers must contribute a uniform percentage of pay for each employee, although they do not have to make contributions every year. Employer contributions are limited to the lesser of 15 percent or $25,500 for the year 2001. In 2002, the amount increases to the lesser of 25 percent or $40,000. (Note: this amount is indexed for inflation and will increase). SEPs can be started by most employers, including those who are self-employed.

SEPs have low start-up and operating costs and can be established using a single quarter-page form. And you can decide how much to put into a SEP each year — offering you some flexibility when business conditions vary.

401(k) and Profit-Sharing Plans

401(k) plans have become a widely accepted retirement savings vehicle for small businesses. Today, an estimated 36 million American workers are enrolled in 401(k) plans that hold total assets of about $1.7 trillion.

Employees can contribute a percentage of their pay to the 401(k) plan on a tax-deferred basis through payroll deductions.