

Take care of your employees...

Your 5-minute Guide



Nationwide[®]
On Your Side

Take care of your employees ...before someone else does

As a business owner, you take care of your employees through salary, medical care options and paid-vacation time. So why not offer a benefit that will help them out now and in their retirement years?

A quality retirement program can be a way for you to possibly reduce your company's current tax burden and invest money for your own retirement. It's also an excellent tool when it comes to attracting and retaining the valuable employees who make your business successful.

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What's in it for you?

Setting up a retirement plan will not only benefit your employees, but it may help your business. Here's why:

- Company contributions to retirement plans (and often plan expenses) are generally tax-deductible
- Your business may be eligible for a tax credit for establishing a qualified retirement plan
- A retirement plan helps your employees attain a more financially secure future
- This employee benefit can be highly valuable for recruiting and retaining quality employees
- Owners, including self-employed individuals usually save more through a business retirement plan than from an IRA

There's a lot to choose from

When choosing among different types of retirement plans, it's important that you don't commit more administrative time and cost than you can afford. Fortunately, there are more retirement choices than ever, making it easier to select the right one.

Decide what you want your retirement plan to accomplish. To assist, your investment professional may ask questions like these:

- How consistent is your month-to-month and year-to-year cash flow?
- Are tax-deductible contributions a priority?
- How many employees do you have?
- Are they predominantly young? In middle years? Nearing retirement age?
- Do you have difficulty attracting and retaining good employees?
- Do you want a plan that covers everyone, or just key workers?
- Are you willing to contribute to employees' accounts?
- Are your employees willing to contribute for themselves?
- Do you want to contribute for everybody, or only for participating employees?

What's best for your company?

There are two kinds of retirement plans to choose from — qualified and nonqualified. Both plans allow tax-deferred growth on investment earnings. However, the main difference between the two is whether or not the contributions are tax deductible to the employer when they're made.

Qualified retirement plans

- Meet IRS requirements — eligible for special tax considerations
- May allow contributions from the employer as well as from employees
- Allow contributions made by the employer on behalf of eligible employees that are tax-deductible to the business; earnings are not taxed to the employee until withdrawn
- Include defined contribution plans, defined benefit plans and business IRAs

Nonqualified retirement plans

- Doesn't meet the IRS or ERISA requirements for favorable tax treatment
- Offer more flexibility in funding, vesting, distribution and reporting options
- Are useful in adding to the retirement portfolios of highly compensated employees

Plans that the whole team qualifies for

Defined Contribution Plans

With a defined contribution plan, retirement benefits are not determined in advance but depend on the amount contributed and the investment return. Each participating employee and/or the employer may make contributions to an account established for the participant. Typically, participants choose how to invest their contributions.

401(k) Plans

- Allow eligible employees to allocate part of their compensation directly to the plan
- Help participants reduce current income taxes
- Let investment earnings grow tax deferred, until withdrawal
- Allow company to match a portion of participants' contributions, if desired
- Roth feature available allowing participants to pay taxes on their investments at the time of contribution, rather than withdrawal

401(a) Profit Sharing Plans

- Funded solely by the employer
- Offer great flexibility in terms of timing and amount of contributions
- Neither current nor accumulated profits are actually required in order to contribute

Defined Benefit Plans

A defined benefit plan — often called a pension — provides a benefit based on a formula established for the plan. Basically, this type of plan promises a predetermined amount of retirement income to a participant. Paid benefits may be based on social security benefits, and may or may not be adjusted for subsequent cost-of-living adjustments.

Benefits are generally paid based on three factors:

- Age
- Service
- Compensation

These plans tend to be:

- More expensive to administer than defined contribution plans
- More valued by older, longer-service workers
- More generous in rewarding long-term employees
- Less understood by employees than defined contribution plans

412(i) Plans

- Guarantee retirement income through life insurance and annuity contracts issued by insurance companies
- Appeal to business owners who want the maximum current tax deduction and secure income in retirement
- Contribution amounts are high in the early years of the plan, which may make it a less appealing choice for companies that have many potential participants

Maybe you need something a little simpler

For small businesses, there are two types of individual retirement accounts (IRA) that offer simpler retirement plan solutions:

Simplified Employee Pension or SEP IRA

SEP IRAs are popular, especially with self-employed individuals, because they don't require complex tax filing or generate administrative costs.

- Employer contributes directly to an account for each plan participant
- Employees cannot contribute (although they may open individual IRAs on their own)
- The contributions to all employees must be the same percentage of salary

Savings Incentive Match Plan for Employees or SIMPLE IRA

- Business owners with 100 or fewer employees may establish a SIMPLE IRA
- Employer chooses from one of two formulas to make contributions on behalf of employees
- Participants may contribute to their own accounts

Plans just for your star players

Nonqualified retirement plans can provide benefits unavailable elsewhere. For example, qualified plans' contribution limits and nondiscrimination rules typically restrict the amount of compensation key employees can defer. Nonqualified plans don't. As a supplement or an alternative to a qualified plan, a nonqualified plan may benefit business owners and key employees.

Executive bonus plan

- Lets an employer offer key executives a life insurance program that can provide lifetime benefits such as supplemental retirement income, as well as survivor benefits
- Employer's contribution to the plan is usually tax-deductible

Insurance-based retirement plans

Business owners who have contributed the maximum to qualified plans should consider the tax advantages of an insurance-based retirement plan (IBRP) for themselves and key employees.

- Allows participants to take advantage of the special tax treatment of cash-value life insurance to receive supplemental retirement benefits, as well as to provide death benefits to their survivors

Insure your company's future

There are two types of life insurance coverage to help a business survive following the death of a business partner or key employees:

- Owner life insurance coverage
- Non-owner key employee life insurance coverage

Are you ready to learn more?

There's no better time than the present for you to find out which retirement plan may be best for your company, your employees and you. Give your investment professional a call today.



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NFM-1866AO.4 (01/08)

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