

Does Your Business Need a 'Retirement Plan'?

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The question I'm frequently asked is "Do I really need to consider a retirement plan for my business"? The answer is typically "Yes." The question arises, generally, because the owner of the business or professional practice does not want to add unnecessary overhead or increase costly unnecessary and unappreciated benefits. And, the thought is, incorrectly, that all those employed will have to participate.

Why consider a "retirement" plan?

Because these plans are not about retirement! For the business or professional practice owner these plans are about the income tax deduction, the tax deferred growth, and the asset protection features under ERISA (the Employee Retirement Income Security Act of 1974).

These plans are frequently called "qualified plans" because the contribution 'qualifies' for an income tax deduction

For the 2014 year, considering a 401k plan, you may have as much as \$52,000 contributed to your account. Age 50 and older, the maximum annual contribution can be \$57,500! Let's assume that you are age 52. In 2014 you may defer \$17,500 from your salary plus an additional \$5,500 "catch up" contribution, for a total salary deferral of \$23,000. Add to that the employer contribution and you can achieve a total "annual addition" to your account of \$57,500! The entire contribution is income tax deductible! Have a spouse on the payroll? Children? They may each have a deferral so the tax benefits only get better.

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Published on Food Manufacturing (<http://www.foodmanufacturing.com>)

What if the \$57,500 is not significant enough of a deduction? Consider a Defined Benefit (DB) Plan. A DB plan can generate, in some instances, annual tax deductible contributions of up to \$250,000. Combine the Defined Benefit with the 401(k) plan and you can create a strong vehicle for tax savings!

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