



University of Nevada
Cooperative Extension



College of
**Agriculture, Biotechnology
and Natural Resources**
University of Nevada, Reno
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Retirement Compensation Plans

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Overview

- Personal retirement plans
 - Traditional IRA
 - Roth IRA
- Business retirement plans
 - SEP IRA
 - SIMPLE IRA
 - Profit sharing
 - 401(k)
 - Defined benefit
- Investment options



Traditional IRA

- Contributions fully tax-deductible
- Investments grow tax deferred until withdrawn
- Can contribute up to \$4,000 each year
 - If over 50, can make additional contribution of \$1,000/yr
 - Current year contributions must be made by April 15 of following year
- Penalties on withdraws up to age 59.5
- Must start withdraws by age 70.5



Roth IRA

- Investments grow tax-deferred
- Qualified withdraws are not tax
- Contributions are not tax-deductible
- Can contribute up to \$4,000 each year
 - If over 50, can make additional contribution of \$1,000/yr
 - Current year contributions must be made by April 15 of following year

Traditional IRA Versus Roth IRA Comparison



Simplified Employee Pension Plan

- SEP IRA
- Eligibility requires only a handful of employees
- Low cost, low maintenance
- Funded with tax-deductible employer contributions
- Must cover all eligible employees
- Employee contributions not allowed
- Do not need to file annual reports with the IRS
- Contributions can vary year to year



Savings Incentive Match Plan for Employees

- SIMPLE IRA
- 100 employees or less
- Allow employee contributions
- Mandatory employer match up to 3% of salary



Profit Sharing

- Any business owner or self-employed individual
- Employees cannot contribute
- Contribution is based on the company's performance, so will vary year to year
- More complex, may require professional administration



401(k)

- More than 25 employees
- Employee & employer contributions
- Employer match not required
- Administration can be expensive
- Employer contributions usually take years (1-5) to vest



Defined Benefit Plan

- Any small business is eligible
- If you are looking to retire in the next 10 years or so & haven't built up a nest egg, this is a good opportunity to save
- Employees cannot contribute
- Older employees looking to put away a lot of money over a short time period can do so
- Can be expensive, requires actuarial services
- No employee control over investment options
- Not flexible or portable

Small Business Retirement Plans by smartmoney.com



Retirement Plan Investment Options

- Mutual Funds
- Bonds
- Stocks



Mutual Funds

- A mutual fund is a pool of money, owned by a group of investors, & invested in various stocks &/or bonds under the guidance of a professional portfolio manager
- When you purchase a mutual fund, you become part owner in the securities held in that fund
 - An indirect stockholder
- Each mutual fund has an objective that guides the overall investment strategy of the fund's professional portfolio manager(s)



Mutual Funds

- Mutual funds provide investors with four basic advantages over individual securities
 - Diversification
 - Professional management
 - Low initial investment requirements
 - Ease of investment
- Mutual funds make money for the investor 3 different ways
 - Income
 - Generated from investment in dividend-paying stocks or interest-paying bonds
 - Capital gains
 - When securities within the fund are sold at a higher price than the purchase price, a capital gain is realized
 - Capital appreciation
 - Occurs when the investor sells a fund share for a higher amount than the purchase price



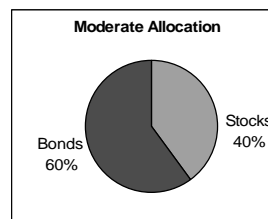
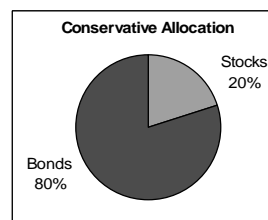
Asset Allocation

- Each asset type has its own return & risk characteristics
 - Combining them appropriately within a portfolio can reduce the overall volatility or risk of the portfolio
 - The goal is to mix assets that tend to rise & fall somewhat independently of each other
 - Investors usually base allocation decisions on four main factors:
 - Personal level of risk tolerance
 - Their financial goals
 - The time horizon for those goals
 - Their need for liquidity



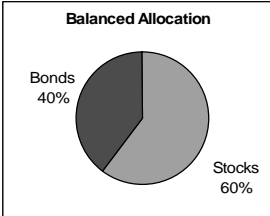
Asset Allocation

- Conservative: 20% stocks, 80% bonds
 - Historical average annual return: 7.6%
- Moderate: 40% stocks, 60% bonds
 - Historical average annual return: 9.2%

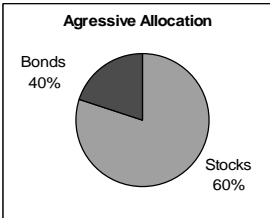


Asset Allocation

- **Balanced:** 60% stocks, 40% bonds
 - Historical average annual return: 10.7%

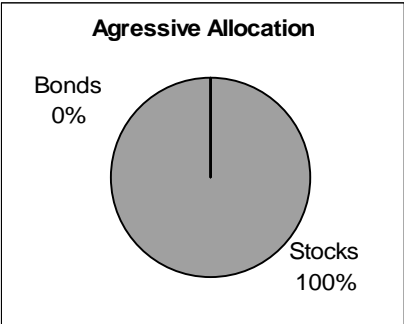


- **Aggressive:** 80% stocks, 20% bonds
 - Historical average annual return: 12.3%



Asset Allocation

- **Equity aggressive:** 100% stocks
 - Historical average annual return: 13.9%



Bonds

- Bonds: actually a loan to a government or corporation
 - Investor acts like a bank, receiving interest on the loan until the loan is paid off on the maturity date of the bond
 - Offers a steady income from interest payments
 - Flexible durations for investing: 1-30 years
 - Short-term: 1-3 years, usually called notes
 - Intermediate-term: 5-10 years
 - Long-term: 20-30 years
 - Bonds with longer maturities pay higher rates, reflecting the loss of liquidity



Bonds

- Who issues bonds?
 - Corporations issue bonds to raise capital for business expenditures
 - US government issues bonds to pay off public debt & fund operational expenses
 - State & local governments issue municipal bonds (munis) to fund public improvement projects
 - Munis pay lower interest than other bonds because they are exempt from federal tax



Bonds

- Buying & trading bonds can be difficult for an individual investor
 - No public system for quoting bond prices & tracking the latest trades
- Rating agencies grade bonds by considering factors such as the issuer's debt load, growth rate, & profitability
 - A higher grade means a higher probability that the issuer will be able to pay the bond's face value in full at maturity
- Risk: bonds are riskier than cash assets
 - Interest rate risk: as interest rates rise, the market value of existing bonds falls; as interest rates fall, the market value of existing bonds rises
 - Default risk: bond issuers are promising to pay back the initial investment, with interest, at the date of maturity—but this doesn't always happen—corporations or governments may go bankrupt or run out of money



Stocks

- Purchasing a stock is purchasing a small piece of a corporation
 - You become part owner of the business
- Investors make money from stock ownership in two ways
 - Capital appreciation
 - When the price of a corporation's stock rises in the market, investors can choose to realize the gain by selling the stock at the higher price
 - Dividends
 - When a corporation makes a profit, the board of directors may decide to share some of the profits with stockholders by declaring a dividend
 - The only cash payments regularly made by companies to their stockholders
 - May be in the form of cash or additional stock



Stocks

- Large-capitalization (large-cap) stocks
 - Shares in companies with market values of \$5 billion or greater
- Mid-capitalization (mid-cap) stocks
 - Share in companies with market values between \$1 billion & \$5 billion
- Small-capitalization (small-cap) stocks
 - Shares in companies with market values of less than \$1 billion
 - Higher risk levels because they are often newer & smaller enterprises



Finance Companies Who Offer Small Business Retirement Plans*

- Fidelity
- Putman
- Charles Schwab
- T. Rowe Price
- Bank of America
- Your local bank...

*These are suggestions not endorsements



Other Resources

- IRS Publication 560 (2007), Retirement Plans for Small Business
 - <http://www.irs.gov/publications/p560/index.html>
- Smart Money article on retirement plans
 - <http://www.smartmoney.com/retirement/ira/index.cfm?story=smallbiz>



Thank you!

