

Simplified Employee Pension Plan (SEP IRA)

If you have just a handful of employees and are looking for a plan that is truly low cost and low maintenance, then consider a SEP IRA. The plan is funded with tax-deductible employer contributions, and you must cover all eligible employees. Employee contributions are not allowed.

With a SEP there is no "plan document," and you don't need to file annual reports with the IRS. Contributions can vary from year to year. So if you hit a lean spell, you aren't locked in.

SEP IRA		
	Employers	Employee
Eligibility	Any business owner or self-employed individual.	All employees who have worked for you for three of the past five years and who earned at least \$450 from you last year.
Contribution Limits	25% of compensation (if you're an employee of your own corporation) up to \$44,000; 20% of self-employment income (if self-employed) up to \$44,000.	Employees cannot contribute. But the employer must contribute to eligible employee accounts the same salary percentage she contributes to her own.
Vesting	Immediate.	Immediate.
Pros	Contributions do not have to be made every year. Very easy and cheap to set up and administer.	Vesting is immediate.
Cons	Must cover all qualifying employees. Employees cannot contribute. Vesting is immediate.	Employees cannot contribute.

Savings Incentive Match Plan for Employees (SIMPLE IRA)

SIMPLE IRAs are good for your employees. They allow employee contributions. And, they mandate an employer match. Trouble is, a SIMPLE IRA won't let you sock away as much for yourself. For 2006, annual contributions are generally limited to \$10,000 (\$12,500 if you are 50 or older as of 12/31/06) plus an employer matching contribution (up to 3% of your salary).

"If you have a business with less than 10 people, then a SIMPLE IRA is a great way to get started," says David Wray, president of the Profit Sharing/401(k) Council. Whatever you do, don't get the SIMPLE IRA confused with its similar but flawed cousin, the SIMPLE 401(k). This retirement option is like a traditional 401(k) except it typically has higher fees and less flexibility. "When we studied this option, we could not come up with a scenario where this would make sense to use," says Jeanette LeBlanc, marketing manager at T. Rowe Price.

SIMPLE IRA		
	Employers	Employee
Eligibility	Employers with 100 employees or less who do not maintain any other retirement plan.	All employees who have ever earned more than \$5,000 in any two years prior and who will earn at least \$5,000 this year.
Contribution Limits	3% employer match (in certain situations, the match can be 1% to 2%) or 2% nonelective contribution for all employees up to \$4,400 per employee.	\$10,000 plus employer match up to 3%. (Employer can contribute \$10,000 plus match to her own account.) Additional \$2,500 if you are age 50 or older as of 12/31/06.
Vesting	Immediate.	Immediate.
Pros	Employees can make contributions. If you have lower salary (or self-employment income), you can make larger contributions than under other types of plans.	Employees can make contributions.
Cons	Employer most likely cannot contribute as much as she can to a SEP IRA. Match is mandatory. Vesting is immediate.	None really, unless you have a high salary that would permit larger contributions under other types of plans.

Profit Sharing Plans

As you might imagine, a profit sharing plan gives you a slice of your company's profits. Annual contributions are made to your account, but because they are based on your company's performance, they'll likely vary from year to year.

Profit Sharing		
	Employers	Employee
Eligibility	Any business owner or self-employed individual.	Employees who worked at least 1,000 hours in past year; two years, if no vesting period.
Contribution Limits	25% of salary (20% of self-employment income) up to \$44,000.	Employees cannot contribute.
Vesting	Determined by employer.	Determined by employer.
Pros	Contributions can vary from year to year.	
Cons	Administration usually requires hiring a pro.	Employees cannot contribute. Vesting takes time in most plans.

401(k)

Think your business is too small for a 401(k)? Think again. If you have more than 25 employees, then you might be surprised to find that a 401(k) is not as expensive to create and maintain as you may have thought. "Due to the competitiveness amongst 401(k) providers, the price point continues to drop," says Guy Patton, senior vice president of emerging corporate markets at Fidelity. For example, Fidelity now offers a 401(k) package for businesses with 25 employees or less that costs \$1,400 per year in annual fees, plus \$28 per employee. Of course, this plan has limited flexibility — you're going to pay more for the fancy plans.

Profit Sharing		
	Employers	Employee
Eligibility	Any business.	Employees who worked at least 1,000 hours in the past year; two years, if no vesting period.
Contribution Limits	Combined employer and employee's contribution cannot exceed \$44,000 (\$49,000 if you are 50 or older).	\$15,000 (\$20,000 if you will be age 50 or older as of 12/31/06.)
Vesting	Determined by employer.	Determined by employer.
Pros	Employee/employer contributions. Match not required.	Employee can contribute.
Cons	Administration can be expensive.	Employer contributions usually take years to vest.

Defined Benefit Plan

Thought that defined benefit plans had gone out with shag carpet? Maybe not. A defined benefit plan just might make sense for you. (These plans can be administered through a Keogh.) If you are in, say, your 50s, looking to retire in the next 10 years or so and haven't built up your nest egg yet, then a defined benefit plan is a good opportunity to save. You can contribute as much as is needed to give you an annual retirement payout of \$175,000 or 100% of the average of your three highest consecutive pay years. (You'll need an actuary to help you with the calculations.) Unfortunately, what's good for you is bad for younger employees. Because they have more years until retirement, their contribution limit will be lower than yours.

And there are additional drawbacks. For starters a defined benefit plan can be expensive and it's not very flexible. For example, contributions are not optional. If you can't fund your plan, then you'll have to change your plan document. And "the IRS does not look kindly on companies that change their plan frequently," says Tom Ferrara, president of Future Value Associates, a company that helps establish benefits programs for small businesses.

Profit Sharing		
	Employers	Employee
Eligibility	Any business owner or self-employed individual.	Employees who worked at least 1,000 hours in the past year; two years, if no vesting period.
Contribution Limits	No set limit. Contributions are based on actuarial assumption. Maximum annual retirement benefit is \$175,000 or 100% of the participant's average compensation for his highest three consecutive earning years.	Employees cannot contribute.
Vesting	Determined by employer.	Determined by employer.
Pros	Older employers looking to put away a lot of money over short time period can do so.	You are guaranteed a set payout after retiring.
Cons	Can be expensive. Actuary required to determine contribution/deduction limit. Inflexible.	No employee control over investment options. No employee contributions. Vesting takes years in most plans.

