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PayDay

Many of the national payroll companies sell 401k plans as a "one size fits all" retirement plan for small business owners. The payoff for the large payroll companies? -- fees of about $2,000 per year to administer the 401k plan, plus a percentage of income earned on the plan investments.

Many smaller employers would be better served by adopting a SIMPLE - IRA retirement plan for the following reasons:

- A SIMPLE - IRA plan does not require third party administration and therefore can be "maintained" for free. A 401k plan is a complex legal document which requires "third party administration" at a cost of $2,000 or more every year;
- A SIMPLE - IRA plan does not require annual "testing" and essentially can discriminate in favor of higher paid employees who can afford to contribute more to the tax-deductible plan. Key employees will not have "excess contributions" returned to them from a SIMPLE - IRA plan;
- A SIMPLE - IRA plan requires that each plan participant set up their own personal SIMPLE - IRA account. Every employee makes their own investment decisions and therefore the business owner is not responsible for investing

employee retirement funds; and

- 401k plans and SIMPLE - IRA plans BOTH provide the following benefits to employers and employees:

√ Both plans involve visible participation by employees as they contribute a portion of their payroll checks on a "pre-tax basis" to their retirement plans. Pension plans, including "SEPs", which are entirely employer-funded are often "taken for granted" by employees; and

√ Both 401ks and SIMPLE - IRAs help employers recruit and retain talented employees.

CONCLUSION

You should select a retirement plan which is the best "match" to your unique business profile and objectives. Millions of small business owners and non-profit organizations have decided that a SIMPLE - IRA plan meets their retirement plan objectives without cost or complexity.

Call an AccuPay "CPP/CPA service team" at 885-7600 if you have questions about SIMPLE - IRA retirement plan rules or how to set a plan up.

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.

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