

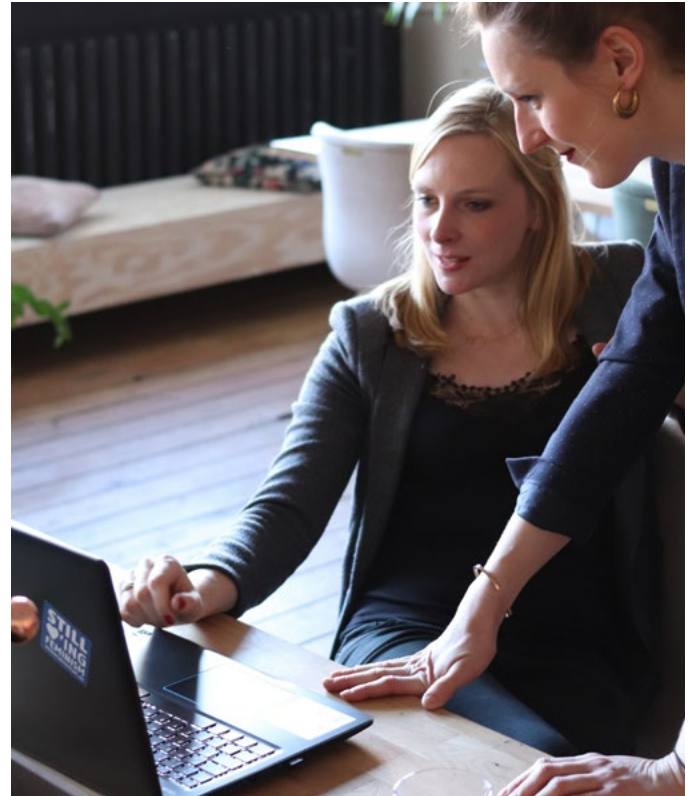


How Women Business Owners Can Save for Retirement and Reduce Taxes

By Angela Dorsey

As a woman business owner, I understand how busy you are and how challenging it is to wear so many hats. You know that you need to be saving for retirement, but it's difficult to find the time to understand all of the opportunities available to you, much less take advantage of them.

When you do venture in, it's hard to know who you can trust among the myriad of financial professionals out there. Let me show you how I recommend approaching the daunting task of saving for retirement as a business owner.



What Are You Looking For In A Retirement Plan?

There are a lot of financial advisors that sell products, including retirement plans. They have three or four options on their “menu” of retirement plans they offer, and when you meet, they will ask you a few questions to see which of their options fits you best.

I believe this is the exact opposite way you should go about selecting a retirement plan. Don't try to fit yourself into someone else's cookie-cutter retirement package. Instead, discover what it is that you really need first and then build your plan around that. Here are some questions you should ask yourself before you start shopping for a retirement plan.

What would I like a retirement plan to accomplish?

What goal are you trying to achieve by sponsoring a retirement plan? Is your main focus your own retirement, how to maximize contributions for you and your spouse? Or are your goals more business-focused, such as wanting to attract, motivate, and retain top employees?

There are many different retirement plan options available. Different types of plans focus on different needs. If your goal is your own retirement, then you will likely end up with a different plan than if your main goal is to build your workforce.

How much can my business afford to contribute to employee accounts?

Are your profits consistent from year to year? Do you want your contributions to employee accounts to be a standardized percentage or more flexible? If you have uneven cash flows, then there are certain plans that you will want to avoid because of the funding requirements. The manner and the amount that you want to contribute to your employee's retirement accounts will greatly impact your choice of retirement plan.

How much of an ongoing commitment will the plan require?

You want to sponsor a retirement plan, but how much of a commitment are you willing to make? What are the administration costs for the plan? How much time will it take to administer the plan? While every retirement plan will require some effort, the amount of time and money required varies greatly by plan.

It is important to reflect on what you are willing to put into a retirement plan and have a thorough understanding of what each kind of plan entails. You don't want to commit to something that is unsustainable—either financially or in the staff hours required to maintain it.

Types of Retirement Plans

Only after you have an idea of what you are looking for in a retirement plan (the goals you want it to achieve and what your business is able to devote to it) should you begin to look at your options. Having a clear purpose for the retirement plan narrows down your options and leads to a faster and wiser decision. Here are some of the retirement plans currently available to small businesses.

SEP Accounts

Simplified Employee Pension (SEP) plans are popular among small businesses and sole proprietors because they are easy to set up and can be established up to 9 months after the tax year end. Contributions to employee accounts are discretionary and can vary from year to year, but they cannot be discriminatory and must be provided to almost all employees. Self-employed individuals can contribute 20% of their income up to \$57,000 (for 2020) on an annual basis to their own accounts.

Solo 401(k) Accounts

Solo 401(k) accounts are like their popular counterparts of the same name except that they are designed for self-employed individuals and owner-only businesses. They are not available to businesses with employees other than a spouse. Because of their small size, they are both low-cost and easy to administer. Contributions are limited to \$19,500 for 2020 with a \$6,500 catch-up available to those over age 50.

SIMPLE IRA

Savings Incentive Match Plans for Employees (SIMPLEs) are available to businesses with 100 or fewer employees. SIMPLE IRAs have low administrative costs and are simple to set up and maintain, but they have the lowest contribution limits of all employer-sponsored plans and also have required employer contributions. In addition, SIMPLE plans cannot be combined with any other workplace retirement plan.

Profit Sharing

Profit-sharing plans are a kind of qualified plan that includes 401(k)s, thrift plans, and employee stock ownership plans, to name a few. Since they are considered "qualified" by the IRS, they

cost more to administer because they have to comply with more regulations and reporting requirements. They have higher contribution limits (\$57,000 for 2020) and can allow for in-service loans and withdrawals. They can also be set up so that older and more tenured employees receive greater benefits than younger and newer employees.

Defined Benefit Plans

The term “defined benefit plan” covers a number of different kinds of retirement plans, including traditional pension plans and cash balance plans. The key difference between these and other plans

is that you, as the employer, are making a promise to pay a specific benefit during your employees’ retirement as opposed to just contributing some money toward their retirement. This shifts the investment risk from the workers to the plan sponsor, which is you.

Defined benefit plans tend to be more costly and require more time to maintain than other types of retirement plans. However, they also allow business owners to set aside much greater amounts toward retirement. A business owner close to retirement can contribute up to hundreds of thousands of dollars a year with a cash balance plan.



How Saving For Retirement Also Saves On Taxes

Not only does sponsoring a retirement plan allow you to better prepare for your future, it allows you to save on taxes right now in the present. Employer contributions to retirement accounts are tax-deductible for the business, which lowers your taxable income—and therefore your tax liability. Employees also get to exclude the contributions from their income, lowering their own personal tax bill. Some contributions are not even subject to FICA, or payroll taxes, which saves 7.65% each for both the employer and the employee.

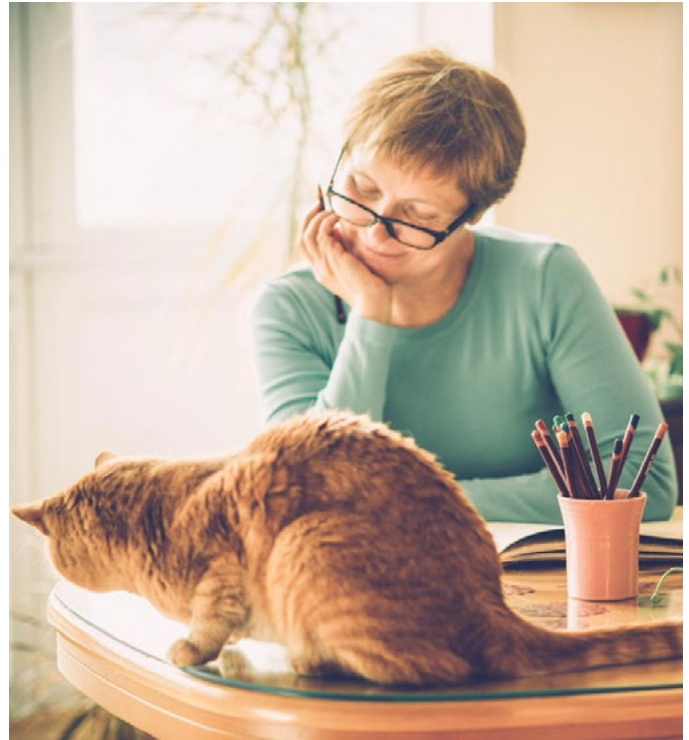
Finally, these workplace retirement plans allow you to set aside money for retirement pre-tax. If you don’t have to pay taxes on the money first, then you have more to save, invest, and grow for your retirement. Compounding interest can work its magic on a larger account balance because growth in these accounts is tax-deferred.

How To Get Your Retirement Plan Started

Establishing a retirement plan for your company can be a wise move both for you personally and for the company. However, with a business to run, you likely don't have the time to learn about and analyze all of your options the way you should.

That's where I come in. As a highly trained financial professional, I can guide you through the retirement plan selection process and educate you regarding your options. And, as a female business owner myself, I understand the challenges that you're facing and the emotions you're experiencing.

To learn more about how I can help you prepare for retirement and reduce your taxes, [schedule a complimentary 30-minute phone call](#) today.



About Angela



Angela Dorsey is the founder and fiduciary wealth manager at [Dorsey Wealth Management](#), a fee-only financial planning firm helping successful women prepare for retirement. Angela earned a BS in computer science from Loyola Marymount University, an MBA from UCLA Anderson School of Management, and spent 20 years as a Senior Compensation Specialist in large corporations before becoming a Certified Financial Planner™ (CFP®) and a Registered Investment Advisor (RIA). That background gave her the tools to couple with her passion for empowering women to make the best financial decisions possible. Angela lives in Torrance, California, with her husband and two children. She enjoys spending time at the beach or surrounded by nature. To learn more about Angela, connect with her on [LinkedIn](#).