SCS Connection

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Retirement Plans Made Easy

By Eric Nager, Chartered Retirement Plans Specialist

A corporate retirement plan is a very valuable tool in preparation for retirement. These plans come in many forms. The most common is the 401(k) plan, but there are several variations like the 403(b) for non-profits. Many employers that do not have a plan still offer retirement savings accounts, like a SEP or SIMPLE IRA. As with a traditional IRA, a retirement plan allows the participant to save now, deduct contributions from your taxable income, grow the account tax free, and only pay taxes in retirement when you make withdrawals.

For a business owner, a plan can be a great way to save on taxes and fund a retirement. Contributions are tax deductible for the company and, when made on behalf of employees, are a nice benefit to attract and retain talent. By maximizing possible contributions to a plan, a participant can save far more than the limits on a traditional IRA.

From a participant point of view, a retirement plan balance often represents someone's largest single investment outside of a home. It is very important to build up a balance in order for it to serve as one of your key sources of income in retirement. Social Security is another source of retirement income and any personal savings made outside of the retirement plan is a third. Ideally, all three are needed working together to provide an adequate retirement. Any single source by itself is probably not enough.

In the past, pension plans were an excellent source of retirement income but, unless you work for the government, most employers no longer offer pensions. A pension is referred to as a defined benefit, where the retiree receives a defined monthly income based upon compensation and years of service to the company. A 401(k), on the other hand, is a defined contribution plan where the participant saves a defined amount of his or her pay and the benefit in retirement is based upon market performance.

The shift from defined benefit plans to defined contribution plans has placed a greater burden on participants to take care of their own retirement. Sometimes the investment choices within a plan can seem confusing or overwhelming. Southern Capital offers to advise our clients on the choices within their retirement plans as a value-added service. If you have not asked us to look at your choices within the last 6-12 months, please take us up on this offer today.

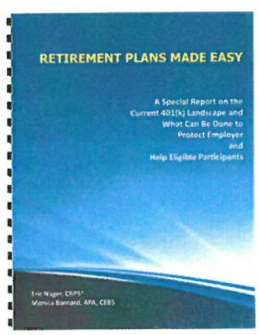
One benefit that many plans offer is a matching provision. In other words, an employer will match a percentage of an employee's contributions up to a certain limit. For example, an employer might match the first 3% of a participant's contribution dollar for dollar, and then fifty cents of each dollar for the next 2%. This would total a 4% match on a 5% employee contribution and it is free money to the employee. It would not be taxed until he or she withdraws it in retirement. We therefore feel that it is highly important for plan participants to at least contribute enough to receive the full matching benefit of any plan, to the extent they are able.

The shift from defined benefit to defined contribution plans has also placed a greater burden on business owners in terms of plan design. One size does not fit all companies and the type of plan will depend upon what the owner is trying to accomplish. For example, if the owner is trying to catch up on delayed retirement savings, one type of plan might be called for versus another with the objective of trying to lower the firm's tax liability. We partner with business owners in trying to figure all of this out, so if you know an owner who has not looked at his or her plan recently, or is thinking about starting a plan, we would be happy to serve as a resource. These consultations are free and come with no obligation.

Not surprisingly, government regulation also plays a role in retirement plans. The Department of Labor (DOL) as well as the IRS have jurisdiction over plan compliance. RIAs like Southern Capital act as fiduciaries on retirement plans, meaning that they share this major responsibility with the business owner.

A fiduciary role is one that puts the interest of the client ahead of that of the advisor, and an RIA can fill that role because the firm is not being compensated by any investment product. Southern Capital takes the fiduciary approach a step further by offering to actively manage the retirement plan accounts on behalf of the participants so they do not have to make their own investment decisions. And we have written previously about the choices participants have for what to do with their plan balances when retiring or changing jobs. We are available as a resource for this important decision, too.

The bottom line is that corporate retirement plans are the backbone of an investor's retirement preparation and touch tens of millions Americans. They are complex and require professional expertise to aid both the business owners and participants. To that end, we have co-authored a report called



Retirement Plans Made Easy: A Special Report on the Current 401(k) Landscape and What Can Be Done to Protect Employers and Help Eligible Participants. Please ask us if you know of someone who might like a copy and we will send it out.

Tax Updates

For those of you with non-tax qualified (taxable) accounts, established with us before 2011, we are enclosing the tax reconciliation report that goes with your 1099. If your account was opened in 2011 or later, all the necessary information is included on the 1099.

For traditional and Roth IRAs, contributions for tax year 2016 must reach your TD Ameritrade account prior to April 15, so please send those in if you are still planning to make a contribution.