

# Happy retirement

Frequently asked questions about retirement plans **Interviewed by Matt McClellan**

**G**ood retirement plans are often hallmarks of great employers, but finding a good one and setting it up can be a complex endeavor.

But, according to Robert D. Coode, principal and registered representative at Skoda Minotti, there is a plan out there for every company. It may take some time and effort to find one, but once you do, it can be well worth the effort.

“Creating and maintaining a retirement plan benefits both the business owners and the employees,” says Coode.

*Smart Business* spoke with Coode about how to determine what type of plan is right for your company.

## How does creating and maintaining a retirement plan benefit a business owner?

A good retirement plan can help you attract and retain quality employees. In addition, a retirement plan gives both the employee and employer ability to defer income in a tax favorable vehicle.

The tax advantages associated with retirement plans are key. Contributions made to the retirement plan are deductible when deposited and grow from there on a tax deferred basis.

On a side note, employees today get confused between a benefit and an entitlement. A retirement plan is not an entitlement; it is a benefit. That is important to state, and it needs to be expressed to the employees.

## What types of plans are out there?

Once you decide to implement a retirement plan, you need to educate yourself about the types of plans that are available. Generally, most people don't understand the variety of plans out there.

Most plans are either IRA-based or ‘Qualified’ in nature. An example of an IRA-based plan would be a SEP plan (simplified employee pension). Another is SIMPLE (savings incentive match plan for employees).

On the flip side, common examples of a qualified plan would be a profit sharing plan, a 401(k) or a cash balance plan.

Each plan has its own set of advantages and disadvantages, which really depend on the business owners' situation. There is no one size fits all — just because you have a 10 person group



**Robert D. Coode**

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doesn't mean you automatically fit into a basic IRA plan, for example.

Generally, qualified plans are more complex to set up and more costly to run than IRA-based plans.

The type of plan chosen will have an impact on the maximum amount he or she can defer into the plan on an annual basis. While there are many variables, an example of this would be that the deferral limits into a 401(k) plan are much greater than those into a SIMPLE IRA.

## If you already have a retirement plan, how often should you review it?

It's a good idea for employers to review the plan at least annually. That's a good time for everybody — the business owner, trustees, financial advisor and third party administrator, if there is one — to sit down and make sure they've reviewed all roles and responsibilities, and everybody is handling their fiduciary responsibilities.

Some topics that should be covered in these meetings: the mutual fund or investment lineup, the fund performance, the fees associated with running those funds, and the cost to run the plan from an administrative level, including any fees.

We're in an era of full fee disclosure. Make sure everybody is on the same page and knows what they are paying for. Things change from year to year. But, the point of the exercise is to ensure the plan in place is the best one possible for both the employer and the employees.

## When evaluating retirement plan, what should employer look for?

Because there are such a wide variety of plans out there, each one is going to have its positives and negatives. Before you make a decision, it's important to craft goals. Make sure you choose a plan that allows you to maximize the amount you can save annually.

That goes back to the question of what types of plans are available. If you only want to put away \$4,000 or \$5,000 do you need a 401(k) plan? Not necessarily, as you might be able to meet that goal in a less expensive plan like a SIMPLE IRA or a SEP.

Are you looking for a plan that allows just employee contributions, employer contributions or both? Today's plans allow employees to make both pre-tax and Roth contributions.

Business owners are looking for flexibility. You may not want to be locked into a mandatory employer contribution every year. Again flexibility is the key. If you decide to make an employer contribution, make sure your plan also allows you to potentially skip a year if things get lean.

The last factor is cost. How important is the cost of the plan?

The best way to put it is, you get what you pay for. The lowest cost doesn't always equate to the best plan. In many instances lower cost equates to reduced services. During the evaluation process, it's imperative that fees and expenses are disclosed, as well as everybody's roles and responsibilities. That will allow the business owner along with his or her financial professionals to make an honest, intelligent and informed decision. <<

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