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4 Retirement Plan Options For Your Small Business

Do you own or manage a small business? If you do, the world is your oyster, at least when it comes to retirement plans. In a break from the not-so-distant past, there are now many options for small firms and even for sole proprietors to consider.

The actual list of possibilities is much longer, but the four main contenders in the retirement plan arena for small businesses are: (1)

Simplified Employee Pensions (SEPs), (2) Saving Incentive Match Plans for Employees (SIMPLEs), (3) traditional 401(k) plans, and (4) solo 401(k) plans. Here's the skinny on each one:

1. SEPs. Although a small business may use one of two varieties—the SEP-IRA or the SEP-401(k)—the SEP-IRA is much more common. Generally, the contributions you can make as an employer are based on a percentage of each participant's compensation, up to the annual tax law limits. In an off year, however, you don't have to make any contributions.

For 2014, deductible contributions to an employee's SEP can't exceed 25% of what the employee earns or \$52,000 (\$57,500 if age 50 or over), whichever is less. In most cases, you won't have to make an annual report on your plan to the IRS.

2. SIMPLEs. The SIMPLE format is available only if a business has no other retirement plan and employs no more than 100 workers making \$5,000 or more. You must match either

a predetermined portion of employee contributions to the plan or make a minimum contribution for all plan participants.

Each employee can contribute up to \$12,000 to a SIMPLE in 2014

(\$14,500 if age 50 or over). You don't have to file a yearly return for the plan nor are you required to do annual nondiscrimination testing.

3. Traditional 401(k) plans.

The same 401(k) setup that corporate giants use is also available to small businesses. But these plans normally require strict nondiscrimination testing; to avoid that, you could use a "safe harbor plan." That entails matching each eligible employee's contribution, dollar for dollar, up to 3% of compensation, and 50 cents on the dollar for employee contributions exceeding 3% (up to a 5% maximum). With these plans, you can use a system of gradual "vesting" over six years that will return some of your contributions if a worker leaves the company before the end of that time.

As in 401(k)s at larger companies, participants in smaller plans can elect to defer up to \$17,500 of their earnings in 2014 (\$23,000 if age 50 or over). As with a SEP-IRA, total deductible contributions in 2014 can't exceed 25% of compensation or \$52,000 (\$57,500 if age 50 or over), whichever is less.

4. Solo 401(k) plans. A solo 401(k)

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Sustainable, Responsible, Impact - The New SRI

You probably know a bit about socially responsible investing (SRI). However, the investing field has changed quite a lot over the past several years.

An outgrowth of investors' desire to avoid "sin" stocks, such as alcohol and gambling, SRI mutual funds were created so investors could avoid companies with unacceptable products. Unsurprisingly, the definition of "unacceptable" varies broadly with investors.

Logically, you would think that a "do-no-harm" approach would result in lower returns since the overall investment pool is reduced.

A more recent idea is that companies actively promoting the social good will have better financial returns. For example, a company that uses less energy and more renewable energy will be more competitive when energy prices rise. Additionally, companies with good environmental records have lower risk from environmental cleanup and product contamination. You will hear this referred to as sustainable, or ESG (environmental, social, and governance) investing. We just think of it as doing well by doing good things.

Finally, some investments are direct investments in a socially beneficial activity or product. Loans to underserved communities and clean energy technology are examples. In these types of investments, often called impact investing, the financial return and social good are perfectly correlated.

If you're interested in any of these approaches, let us know.

Colleen Rob Krista

Five Financial Vows For Newlyweds

Are you, or is one of your children, tying the knot? For any couple heading to the altar, financial matters can emerge as a major challenge. As much as you may love each other, there's no guarantee you'll be on the same page about money. In fact, it's not unusual for a "spender" and "saver" to join together in holy matrimony, only to find out they're at odds over finances once the honeymoon is over.

A better alternative may be to address financial issues before you wed. Consider these five practical suggestions:

1. Conduct an inventory. It may help to start by figuring out who has what and how much. List the assets you have coming into the marriage and get your partner do the same. But don't forget the other side of the ledger. Be sure to take stock of each one's outstanding debts and other liabilities.

2. Get organized. Once you've finished the inventory, put your financial affairs in order. One big decision is whether you want to keep your individual assets separate or combine them in joint accounts. This is a personal preference, but younger couples tend to pool their resources while older couples, especially those embarking on a second or third marriage, are more likely to maintain

separation, at least initially. You also will need to consider the beneficiary designations on retirement accounts and other holdings. For example, will you leave things to each other?

3. Set your priorities. Developing a long-range financial plan actually can help your marriage succeed. Do you want to have kids? Will you pay for their college? What about owning a home? It's not too early for newlyweds in their 20s or 30s to establish savings goals. Also, don't ignore the need to set aside funds for retirement, even if it's decades away. If you have other objectives—owning a vacation home, for instance—factor those into the mix.

4. Don't forget insurance. While your main focus is likely to be on meeting your goals, you can't assume everything will go smoothly, and an illness or job loss could be a major setback and put pressure on your marriage. One way to hedge against

future problems is to obtain health insurance, life insurance, disability income insurance, and long-term care insurance.

5. Hope for the best but plan for the worst.

Almost half of marriages end in divorce. It may be difficult to broach the topic, but you may want to consider using a prenuptial agreement, especially if you're the one bringing most of the assets into the marriage or if you're getting married late in life. "Prenups" no longer carry the stigma they



once did, and having a clear-cut agreement about what happens if you split up actually could help keep you together.

Finally, remember that we're here to provide whatever financial assistance you may need. ●

Sound Advice On Donor-Advised Funds

Charitable giving in the United States has rebounded. In 2013, such donations were up 4.9% from a year earlier. According to the "Charitable Giving Report" for 2014, large nonprofit organizations grew by 5.7%, medium-sized organizations by 3.8%, and small nonprofits by 3.6%. And 2013 marked the biggest year-over-year increase in charitable giving since the recession of 2008-09.

But some people these days want to do more than simply write checks to their favorite causes. One way to become more involved in the process is to set up a donor-advised fund.

These funds work pretty much as

the name implies, giving donors more control than normal over contributions. Typically, you give money to a fund managed by a financial institution. A minimum gift of \$5,000 or more may be required. Also, the fund may charge fees, based on a percentage of your assets in the fund (often charging from 0.5 to 1%), to cover administrative costs.

Then donors choose one or more charitable organizations to be potential recipients of their gifts. The fund reviews those selections to verify that the charity is eligible to receive tax-deductible contributions. Once the grant is approved by the fund, the

money is sent to the appropriate charity, indicating that the contribution was made upon the donor-advised fund's recommendation. Gifts also may be made anonymously.

What are the tax benefits? The basic rules for charitable donations still apply. You generally can deduct monetary contributions in full, although the amount is limited to 50% of your adjusted gross income (AGI). Any excess may be carried over for up to five years. You also can claim a deduction for the fair market value of donated property you've held for longer than one year, but deductions for those gifts are limited to 30% of

What \$2 Million Gets In Retirement

People often ask how much money they will need to meet their retirement goals. But let's turn this common question on its head: What will \$2 million actually get you in retirement? This is an interesting query because (a) many people believe that \$2 million is a comfortable amount to meet their retirement goals and (b) it allows us to examine the different ways in which a hypothetical couple can use \$2 million without running out of money.

As with any retirement calculation, this one involves numerous assumptions. Nevertheless, as long as the assumptions are reasonable—for example, using 6% for equity returns rather than the 10% figure that many illustrations often include—it's possible to arrive at a conservative estimate of how much money you might need to retire comfortably.

Let's start with these assumptions for our hypothetical couple:

Before generating a retirement plan for this couple, it's important to clarify what constitutes "success" in this situation. Because we live in a dynamic world, especially when it comes to investing, we'll look at this question in terms of probability, using something known as a Monte Carlo analysis, which factors in thousands of scenarios with widely varying assumptions and investment returns

in every year. For purposes of this example, we'll define success as a probability of at least 85% that the couple's funds won't run out during their retirement.

Using our assumptions for this hypothetical couple, the Monte Carlo analysis shows a 97% probability that they won't exhaust their savings. That easily meets our definition of success and suggests that they might be able to spend more than \$70,000 a year and still succeed, based on the 85% threshold.

So, how much can this couple spend per year and still have an 85% chance of achieving their retirement goals? Running through a few scenarios provided an answer of \$81,000. That's the amount they can spend each year and still have an 85% chance of never running out of money.

This raises another question: Is there a way for this hypothetical couple to spend \$81,000 annually in retirement while also *raising* their probability of never running out of money? There are really just two ways to accomplish that, assuming that going back to work isn't a desirable option for them:

1. They could choose investments that deliver higher returns without increased volatility; or
2. They could look for investments that have the same returns, but less volatility.

One potential way to reduce volatility while maintaining reasonable levels of return is to acquire high-quality, dividend-paying stocks that have a history of increasing their dividends. If the volatility level is reduced from 16% to 13% per year,

based on historical rates, the probability that this couple never will run out of money jumps from 85% to 93%. This significant leap is due to the fact that they are investing more heavily in stable, solid, dividend-paying stocks rather than in investment

Inflation (CPI)	3.00%
Current Age of Both People	65
Age at Retirement	65
Age When Both People Have Passed Away	95
Social Security at Age 67 (combined)	\$35,000 per year
Average Savings Rate	None (Already Retired)
Total Investment Balance Today	\$2 million (50% in Taxable, 50% in IRAs)
Recurring Annual Expenses in Retirement	\$70,000
Investment Mix Before Retirement	70% U.S. Value Stocks, 30% Medium-Term Treasuries
Return Assumption Value Stocks	6% per year
Standard Deviation Value Stocks	16.20%
Return Assumption Treasuries	1.5% per year
Standard Deviation Treasuries	7.20%

AGI. In either case, though, you get the deduction in the year you make the contribution, even if the money doesn't go from the donor-advised fund to the charity until a future tax year.

Keep in mind, however, that charitable deductions are among the itemized deductions that now may be reduced under the

"Pease rule." The reduction is equal to 3% of the excess AGI over \$250,000 for single filers and \$300,000 for joint filers (but not more than 80% overall). You may want to calculate how these

reductions would affect the tax-saving benefits of your generosity.

Finally, it's important to remember you can't benefit personally from your donations to a donor-advised fund. For instance, you can't authorize the fund to pay for tickets to a fundraiser that you attend or use the assets to support a political candidate.



There are literally hundreds of sponsors of donor-advised funds. Before you commit to one, do your homework on the fund's background, policies and fees. ●

vehicles exposed to greater volatility.

Of course, everyone operates under a different set of circumstances. You might need to change several things from this base-bones example to meet your retirement goals. But it is difficult, if not impossible, to tell whether you will be able to retire comfortably until you sit down and actually run through the numbers. When that occurs, some interesting scenarios may emerge to help you see what you need to do to meet your goals.

Bottom line: Will \$2 million be enough to sustain you through your retirement years? We can help you plug in the figures to give you a better grasp of your personal situation and then tailor your plan to your specific needs. ●

Fill Up Tax Brackets To The Brim

Remember the days before self-service when you could drive your car to a gas pump and tell the attendant to “fill ’er up”? There are good reasons to take the same approach to selling securities before the end of the year. If you’re careful to fill up your lower tax brackets with long-term capital gains, you can pocket some cash and pay little, if anything, in federal income tax.

Before you start filling up tax brackets, it’s important to understand the basic tax rules affecting capital gains.

Currently, there are six federal income tax brackets ranging from 10% to 39.6%. Most “ordinary income,” as well as short-term capital gains from sales of assets you hold a year or less, is taxed under this graduated rate structure. But long-term capital gains from selling securities you’ve owned longer than a year may be taxed at three capital gain rates:

- The 0% rate applies to long-term capital gains of investors in the two lowest brackets (10% and 15%).
- The 15% rate applies to long-term gains of those in the middle three

brackets (25%, 28%, and 35%).

- The 20% rate applies to long-term gains of investors in the top bracket (39.6%).

With the tax system’s graduated rate structure, even investors whose capital gains eventually will push them into the 39.6% tax bracket may be able to benefit from having part of their capital gains taxed at the lower 0% and 15% rates. That’s what tax bracket management is all about.

The best way to explain the concept of filling up tax brackets with long-term gains may be with an example.

Hypothetical facts: Suppose that 2014 will be a low-income year for you because of losses from your S corporation or other business circumstances. Not including your investment income, your taxable

income on a joint federal return should be only \$50,000, but the upper threshold of the 15% bracket is \$73,800. That leaves room for another \$23,800 of income (\$73,800 - \$50,000) before you reach the 25% bracket—and the 15% bracket for long-term capital gains. So if you pull down a \$23,800 long-term gain before year-end, the entire amount will be taxed at the 0% rate.

What’s more, consider that the upper threshold for the 35% rate is \$457,600. Any other long-term gains below that threshold will be taxed at the 15% rate.

Of course, there are other factors to consider, including the 3.8% surtax on net investment income. Also, be aware that capital losses offset capital gains plus up to \$3,000 of annual ordinary income. But the long and the short of it all is: You can manage your tax brackets to maximize favorable tax rates for long-term capital gains. ●



4 Retirement Plan Options

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may cover a business owner who has no employees other than a spouse. Generally, these plans have the same rules and requirements as traditional 401(k) plans, including the same annual contribution limits. However, the solo 401(k) does have one decided edge: Under a special tax law provision, the normal 25% limit for annual contributions doesn’t apply. For some sole proprietors, this rule will let them make larger tax-

deductible contributions.

Which of these four plans makes the most sense for you and your business? There are no hard-and-fast answers. Do your homework by

exploring all the alternatives and making comparisons (see box). Finally, don’t hesitate to ask for our assistance to determine your best course of action. ●

Feature	SEPs	SIMPLEs	Traditional 401(k)s	Solo 401(k)s
Number of Employees	Unlimited	Limited to 100	Unlimited	One (plus spouse)
Contributors	Employer only	Employer and employees	Employees and employer (optional)	Employer and employees
Maximum Deferral	N/A	\$12,000 (\$14,500 if age 50 or over)	\$17,500 (\$23,000 if age 50 or over)	\$17,500 (\$23,000 if age 50 or over)
Maximum Deductible Contribution	Lesser of 25% of compensation or \$52,000 (\$57,500 if age 50 or over)	100% up to 3% match to participants or 2% to all eligible employees	Lesser of 25% of compensation or \$52,000 (\$57,500 if age 50 or over)	\$52,000 (\$57,500 if age 50 or over)
IRS reporting	No	No	Yes	Yes
Vesting	100% immediately	100% immediately	May be graded up to six years	100% immediately