



# EXCEEDING EXPECTATIONS

*news, tips, solutions*

## RETIREMENT PLANS: YES, YOU CAN OFFER ONE

IF ASKED, MOST SMALL BUSINESS OWNERS WOULD PROBABLY say that they'd like to offer retirement benefits to their employees, but they're afraid doing so would be too cumbersome or expensive.

The unfortunate result is that most owners of small and mid-sized companies simply choose not to offer a retirement plan. Among companies with fewer than 100 employees, only 34 percent offer a plan, compared to 64 percent of all companies, according to the Employee Benefits Research Institute.

But here's another way to look at it: In the continuing battle to attract and retain the best employees, can you really afford not to offer at least a basic retirement savings plan?

### POSITIVE CHANGES

The retirement plan landscape has undergone tremendous changes over the past decade that are favorable for small businesses and their employees who want to save for retirement. Specifically, legislation has made it easier for small firms to offer some plans by eliminating cumbersome plan testing requirements, increasing the annual contribution limits for all plans, and introducing brand-new retirement plan options.

The Small Business Job Protection Act of 1996 brought about the first big change, introducing "safe harbor" designs for 401(k) plans. Simply put, this allows employers to bypass complicated non-discrimination testing if their plans satisfy the design and notification requirements of the safe harbor rules. In effect, these



safe harbor provisions opened the door for small businesses to offer 401(k) plans to their employees.

A few years later, another positive change was introduced as part of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, which increased the annual contribution limits for qualified retirement plans across the board. It also introduced the concept of "catch up" contributions — additional contribution amounts made by participants age 50 and over — as well as a new "hybrid" type of plan, the Roth 401(k).

### TYPES OF PLANS

As a result of positive developments, a variety of low-cost and easy-to-administer plans are now available. We have outlined the most popular plans as follows:

- Simplified Employee Pension (SEP) plan — This is probably the easiest option, especially for self-employed individuals. The plan document is simple, and annual IRS reports are not required.

Separate Individual Retirement Accounts (IRAs) are established for each employee (including the owner), and the employer makes all contributions directly into these accounts. A SEP provides maximum flexibility: You can vary contribution amounts from year to year to suit your cash flow, or skip them altogether during a year if you choose.

In general, contributions must be made as the same percentage of pay for yourself and any eligible employees (generally defined as employees earning more than \$500). The maximum amount for each employee (including yourself) in 2007 is \$45,000 (or 25

### PLAN DESIGN: THREE QUESTIONS

Before deciding on the type of retirement plan that will be best for your company, you should consider these three questions:

1. What do you, as the owner, want to get out of the plan for yourself?
2. What do you want the plan to accomplish for your staff?
3. What is your overall budget for plan expenses? This should include all internal administrative costs, not just any contributions you intend to make.

percent of total compensation). The biggest potential drawback is that SEPs are 100 percent employer-funded; employees don't contribute anything to their accounts. Also, all contributions are 100 percent vested immediately.

- **SIMPLE IRA** — With this plan, employees maintain their own separate IRAs, like with the SEP. The main difference is that both you and your employees can make contributions to SIMPLE IRAs.

Employees can make annual pretax contributions through payroll deductions of up to \$10,500 in 2007 (or \$13,000 if they are age 50 or over), and there's a matching formula for employer contributions, which are mandatory each year for all employees who participate.

- **401(k) plan** — As noted above, safe harbor 401(k) plans are now practical for even small employers. They allow employees to save for retirement and reduce their current taxes via tax-deferred annual contributions of up to \$15,500 in 2007 (or \$20,500 if they are age 50 or over).

Both the 401(k) and SIMPLE IRA place the primary responsibility for retirement saving on employees, while giving employers the opportunity to get involved by making voluntary matching contributions, which can be vested based on years of service. 401(k)s also give employers the option of allowing employees to take loans from their account balances.

- **Roth 401(k) plan** — Created as part of EGTRRA and made permanent by the PPA, the Roth 401(k) is a hybrid plan that combines features of the traditional 401(k) and the Roth IRA.

The most attractive is the ability to save money on an after-tax basis with tax-free accumulation of earnings and tax-free withdrawals, like with the Roth IRA. The trade off is that there is no current deduction for contributions, like with a traditional 401(k).

Roth 401(k)s are subject to the same contribution limits as traditional 401(k)s: \$15,500 (or \$20,500 for individuals age 50 or over) in 2007. This limit is for both Roth and traditional 401(k) contributions combined.

By comparison, the limit for Roth IRAs is only \$4,000 (or \$5,000 if age 50 or over) in 2007, and they are available only to those whose adjusted gross income does not exceed certain limits. Discretionary employer matches to Roth 401(k)s are made with pre-tax dollars and accumulate in a separate regular 401(k) account that will be taxed as ordinary income at withdrawal.

- **Profit-sharing plan** — As the name implies, these plans enable employees to share in the company's profits. Up to \$45,000 (or 25 percent of total compensation) can be contributed to each eligible employee in 2007. Contribution amounts can vary from year to year, based on the company's financial performance.

#### FIDUCIARY DUTIES OF SPONSORS

In any discussion of retirement plans, it's important to note that as the plan sponsor, you will have very specific fiduciary duties. In particular, ERISA states that plans must be created for the exclusive benefit of employees.

For assistance in determining the right type of retirement plan for your company, please contact our office.

## MANAGING EMPLOYEES ACROSS GENERATIONS

From Millennials to Matures, there has never been a more diverse range of employees from different generations all in the workforce together than there is right now. Managing this diverse universe of employees effectively is one of the biggest challenges facing business owners today.

In this article, we take a broad look at these generations — Matures, Baby Boomers, Generation X and Generation Y (or Millennials) — and their primary characteristics from a business management perspective. (For the specific years of each generation, see sidebar.)

#### DON'T DISCOUNT MATURES

While most Matures are either at or near retirement age, that doesn't make this generation any less of a factor in today's workforce. To the contrary, a growing number of Matures are working past the traditional retirement age of 65, and one in four retirees interviewed in a recent survey said they had returned to work after retirement.

The biggest management challenge with this generation may be dealing with some awkwardness when it comes to supervising



someone 20 or maybe even 30 years older than you are. However, Matures can bring valuable experience, wisdom and insights to the workplace, especially in knowledge industries (like information technology and consulting) where finding qualified and talented employees is critical. Employers should encourage Matures to share their wisdom and experience with younger generations whenever possible.

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## DEFINING THE GENERATION

There is not a 100-percent consensus on the exact years defining generations, but most experts would agree on a generational breakdown similar to this:

- **Matures** — This is the generation of individuals born between 1925 and 1946.
- **Baby Boomers** — This large group of individuals is generally defined as those born between 1946 and 1964. It can be further divided into Early ('46-'55) and Late ('56-'64) Boomers.
- **Generation X** — The generation immediately following the Baby Boom was born between 1965 and 1978.
- **Generation Y** — Also known as the Millennials, Gen Y immediately follows Gen X and is comprised of those born between 1979 and 1988.

## BABY BOOMERS: SHEER NUMBERS

Most members of the huge Baby Boom generation (which numbers about 77 million), especially Early Boomers, grew up as children of Depression- and World War II-era parents, so they often have a strong work ethic and a “whatever it takes” mentality to getting the job done.

Boomers in general tend to be less questioning of authority than younger generations and less flexible in their work style, but also more loyal to their employers — they may have watched their parents spend their entire careers with one company.

Many Boomers rejected technology advances (like PCs, e-mail and cell phones) initially, but most have come to accept them and understand their value as these devices have become ubiquitous. Employers can help Boomers overcome discomfort with technology by providing thorough and ongoing training.

## GENS X AND Y: THE ANTITHESIS

Generation X was first identified as the antithesis of the Baby Boomers. Gen Xers were considered to be independent, disloyal, skeptical, tech-savvy and demanding of their employers when it came to flexible work arrangements, career advancement and work-life balance.

In reality, Gen Xers aren't disloyal, but are cautious about making commitments to employers after witnessing massive corporate downsizings and layoffs in the '80s and '90s. Their loyalty is to their work and their team, rather than their company. They generally like to work independently, with clear goals and plenty of autonomy, and they crave feedback. They are more tech-savvy than Baby Boomers, most of them having grown up using computers at a very young age.

Many Gen Xers want to achieve a proper balance between their personal and professional lives. Consequently, they absolutely reject rigid authority and expect their employers to provide flexible work arrangements such as flex time, telecommuting and casual dress. And they aren't as willing to put in long work hours (except in short stints).

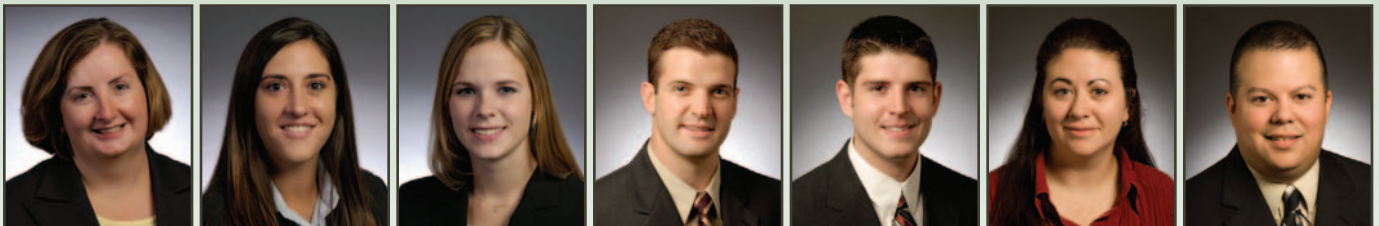
Generation Y shares many of the same traits as Gen X, but there are a few key differences. Gen Yers tend to be more team-oriented and to work better in groups than Gen Xers. They're also good at multi-tasking — many juggled multiple activities as kids and teens. And they prefer structure in the workplace, generally acknowledging and respecting positions and titles. This can sometimes clash with Gen Xers' independence and desire for a hands-off management style.

## YOUR CHALLENGE

As an owner or manager, it's your job to mesh a mixture of employees across all of these generations into a cohesive and productive staff. While this may be your biggest human resources challenge, it's one you can't afford to neglect.

## PROMOTIONS

The partners are pleased to announce the following promotions. These individuals are well deserving and their hard work and dedication are a true testament to their integrity. Please join us in congratulating them.



Alyson Adkins  
Manager

Leah Albertini  
Senior Accountant

Katie Hanson  
Senior Accountant

Michael Sheehan  
Senior Assistant  
Accountant

Kevin Bickerstaff  
Senior Assistant  
Accountant

Michelle Freitas  
Supervisor

Michael Garcia  
Supervisor

Not Pictured: Maureen McCurdy - Senior Assistant Accountant

## SAVING FOR COLLEGE: OPTIONS ABOUND

College education costs continue to soar, with the average tab for just one year at a public university now topping \$16,000. There is some good news, however: More options are available today than ever before to help parents save for their children's college educations.

The most popular education savings vehicle has become the Section 529 plan. It comes in two forms: prepaid tuition plans, which lock in a specified amount of future tuition at today's prices, and investment savings plans, which seek to provide market returns on contributions, possibly via stocks and stock mutual funds.

All states now offer 529 plans, and you can participate in plans outside of the state you live in (although tax benefits may be minimized if you do). Tax benefits vary by state, but generally include a deduction for contributions made and tax-free accumulation of funds.

The money in a 529 plan must be used for educational purposes; otherwise, earnings are subject to taxes and a 10 percent penalty. Funds can be transferred from one child to another, offering flexibility should a child decide not to go to college.



## TAKE CUSTODY

Another option is a custodial account. The primary advantage of a custodial account is tax savings: Most of the income earned in the account will be taxed at the child's rate, which is usually lower than the parent's. However, custodial accounts don't offer as much flexibility in account ownership as 529 plans.

Roth IRAs can also be used to save for college education. Contributions (but not earnings) to Roths can be withdrawn tax- and penalty-free before age 59 for any purpose, including college expenses. By withdrawing Roth principal only for college expenses and leaving earnings intact, you can use a Roth to accomplish both college savings and retirement financial goals.

