

# Retirement Plans for the Self-Employed

An important part of owning and managing your business is considering how that business will provide for you during your retirement years. Setting up a business retirement plan could be as important to your long-term success and comfort as your business itself - and it can provide current tax benefits, too.

## THE RIGHT PLAN FOR YOU

As a self-employed person, with no employees, the benefits of establishing a business retirement plan are numerous:

- You may be able to take a tax deduction just for saving money for your future;
- Earnings on your investments grow tax-deferred until withdrawn.
- You can save for yourself and your spouse if you are working together.

There are many types of retirement plans available. Your RBC Wealth Management Financial Consultant can help you sort through the key differences between the plans to determine the best approach for you. Below is a brief description of the retirement plan options available to you.

## SIMPLIFIED EMPLOYEE PENSION PLAN (SEP)

A SEP is the most flexible business retirement plan available. This plan allows you, the employer, to decide how much, if anything, to contribute each year. A SEP allows you to contribute up to 25% of your earned income or \$49,000, for 2009, and \$49,000

for 2010, whichever is less. The contribution is tax deductible for you as a business expense. A SEP is easy to set up and maintain; it can be established and funded up to your tax-filing deadline, including extensions. Distributions from SEPs are permitted at any time and follow Traditional IRA rules.

## SIMPLE IRA

A SIMPLE IRA is a low cost retirement plan that is also easy to set up and maintain. In 2010, a SIMPLE IRA allows you to defer, pre-tax, up to \$11,500, or 100% of your earned income, whichever is less. You can also defer an additional catch-up contribution of \$2,500 for 2010, if you are age 50 or older. Plus, an additional tax-deductible “employer” contribution of 2% to 3% of your earned income must be contributed annually. Contributions to a SIMPLE IRA are flexible — based on your circumstances, you have the opportunity to change how much you defer from year to year. A SIMPLE IRA needs to be established by October 1st to make current year contributions. Distributions from SIMPLE IRAs follow Traditional IRA rules. However, during the first two years of participation in a SIMPLE IRA the premature distribution penalty is increased to 25%.

## OWNER-ONLY 401(K)

If you are unable to reach the IRS maximum contribution allowed in a SEP, you may be able to do so in an owner-only 401(k). The owner-only 401(k) plan is a profit sharing plan with a 401(k) salary deferral feature designed for businesses



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with no employees other than the owners and their spouses. The owner-only 401(k) has two sources of contributions. The business entity can make a tax-deductible profitsharing contribution of up to 25% of compensation, and then you can make a salary deferral of up to 100% of your earned income, or \$16,500 for 2009, and \$16,500 for 2020, whichever is less. For 2009, the total contribution from both sources cannot exceed \$49,000, unless you are age 50 or older, then you can add up to \$5,500 as a catch-up contribution, bringing the total to \$54,500. For 2010, the total contribution cannot exceed \$49,000, or \$54,500 if you are age 50 or older.

Generally speaking, except in the case of hardship, distributions can be taken from owner-only 401(k) plans upon a triggering event such as plan termination due to retirement or employment changes. However, your owner-only 401(k) plan can also be designed to allow loans against plan assets.

An owner-only 401(k) plan does not require the complicated non-discrimination tests normally associated with 401(k) plans. Recordkeeping requirements include keeping track of the sources of contributions and the respective earnings and loan administration, if applicable. Lastly, you are required to file IRS Form 5500-EZ annually once plan assets reach \$250,000, regardless of fluctuations thereafter. An owner-only 401(k) plan may be established up until the last day of your business' year-end, usually December 31st.

## DEFINED BENEFIT PENSION PLAN

Defined Benefit pension plans allow for higher contributions than any other plan. A Defined Benefit plan is best suited for an older business owner looking to maximize their retirement benefit and reduce their business' tax burden.

A Defined Benefit plan is designed to provide a participant with a fixed lifetime annual benefit at retirement. The amount of benefit is based on a number of factors, including the participant's compensation, age, and years of service. A lump sum distribution and subsequent rollover is also generally allowed at retirement.

Annual contributions are mandatory, which means if you establish a Defined Benefit plan you need to be sure you will have sufficient cash flow each year to meet annual contributions requirements. The plan may be established up until the last day of your business' year-end, usually December 31st.

Defined Benefit plans have complex administration requirements. An actuarial calculation must be done to determine the annual contribution. You are also required to file IRS Form 5500-EZ annually once your plan assets reach \$250,000, regardless of fluctuations thereafter. Costs for plan inception and yearly servicing are usually higher since it is a specialized plan, yet those additional costs are often outweighed by enhanced benefits for you and your business.



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## Compare Your Options

The following tables may help you weigh the features and annual contribution limits of each plan to determine which one may be most appropriate for your business and your retirement preparation needs.

Experts estimate that you will need 70% to 80% of your pre-retirement income to maintain your current standard of living when you stop working. For many of us, retirement will last 20 to 30 years, or more. That's something to look forward to, but it is also another reason why it is important to start preparing for your retirement today.

## Features

	SEP	Simple IRA	Owner-Only 401(k)	Defined Benefit Pension
<b>Establishment Deadline</b>	Business' tax filing deadline, including extensions.	October 1 of current year.	Last day of business' taxable year.	Last day of business' taxable year.
<b>Administrative Responsibilities</b>	Minimal, no employer tax filings.	Minimal, no employer tax filings.	Some administrative requirements — tracking of contributions, loans. IRS 5500 filing required if plan assets \$250,000.	Administrator required — contribution calculation, tracking of contributions, loans. IRS 5500 filing required if plan assets \$250,000.
<b>Funding Requirements</b>	Flexible	Flexible	Flexible but requires consistent funding.	Annual minimum funding requirements
<b>Catch-Up Provisions</b>	None	Yes	Yes	None
<b>Distributions</b>	Withdrawals permitted anytime subject to personal income taxes. Early withdrawals subject to tax penalty.	Withdrawals permitted anytime subject to personal income taxes. Early withdrawals subject to tax penalty.	Permitted after a specified event occurs (e.g. retirement, plan termination etc.). Distributions subject to personal income taxes. Early withdrawals subject to tax penalty.	Payments of benefits or distribution permitted after a specified event occurs (e.g. retirement, plan termination etc.). Distributions subject to personal income taxes. Early withdrawals subject to tax penalty. No In-service distributions allowed.
<b>Loans</b>	No	No	Available	Available



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## 2010 Annual Contribution Limits<sup>1</sup>

	W-2 Wages	SEP	Simple IRA	Owner-Only 401k	Defined Benefit Pension
<b>Owner — Age 50</b>	\$25,000	\$6,250	\$12,750 <sup>2</sup>	\$25,000 <sup>3</sup>	\$18,496 <sup>4</sup>
<b>Owner — Age 50</b>	\$150,000	\$37,500	\$17,500 <sup>2</sup>	\$54,500 <sup>3,a</sup>	\$110,975 <sup>4</sup>
<b>Owner — Age 50</b>	\$200,000	\$46,000 <sup>a</sup>	\$19,000 <sup>2</sup>	\$54,500 <sup>3,a</sup>	\$125,771 <sup>4</sup>

### HOW CAN RBC WEALTH MANAGEMENT HELP YOU?

Running a successful business takes an enormous amount of time, energy and dedication on your part. And just as the expertise you have developed over the years helps you manage your business effectively, RBC Wealth Management has the expertise to deliver the appropriate solutions for your unique retirement planning needs.

If you already have a retirement plan in place, you're off to a good start. We just want to remind you it makes sense to periodically review the options available. This is especially true now that changes in the tax laws have created more options. If you do not have a retirement plan, act now. You may still be able to have the retirement lifestyle you want. But don't wait until tomorrow to do something about achieving it.

Either way, your RBC Wealth Management® Financial Consultant can help. After talking with you about your current situation and your retirement goals and objectives, he or she will work with you and your tax advisor to determine the retirement plan best suited to help you prepare for — and enjoy — your golden years.

Talk to your RBC Wealth Management Financial Consultant today to gain a better understanding of how a properly implemented business retirement plan can enhance your business and help you achieve your retirement savings goals.

<sup>1</sup> All contributions are estimates only.

<sup>2</sup> Includes catch up deferral contribution of \$2,500 and employer contribution equaling 3% of income.

<sup>3</sup> Includes catch up deferral contribution of \$5,500.

<sup>4</sup> Contribution calculation provided by EMJAY Retirement Plan Services.

<sup>a</sup> Maximum allowed by law for 2009.

*This chart is for illustrative purposes and not intended to be representative of any specific investment vehicle. Past performance is not indicative of future results.*

*RBC Wealth Management does not provide tax or legal advice. We will work with your independent tax/legal advisor to help create a plan tailored to your specific needs.*

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