Guide to
Small Business
Retirement Plans

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Guide to Small Business Retirement Plans

As a small business owner, offering a retirement plan to your employees can be a challenge, but it also has its rewards. A retirement plan may benefit your business and your employees by:

- Helping you attract and retain employees.
- Providing tax advantages for you and your business.
- Enabling your employees to save a portion of their wages before taxes.
- Giving your employees a tax deferred retirement savings vehicle.
- Helping you and your employees save for retirement.

One of the most important decisions you will need to make is what type of retirement plan is most appropriate for your business. There are a variety of small business retirement plans; each designed to provide the benefits and flexibility that small business owners need. This guide covers some of the different small business retirement plans, how each operates, and how to choose the retirement plan that is right for you.

Choosing a Retirement Plan

When it comes to choosing a small business retirement plan the decision typically comes down to two primary issues: what do you want to accomplish with the retirement plan and how much flexibility you need as the business owner. The following questions will help narrow down your choices and provide the kind of information your financial advisor will need to help you in establishing the retirement plan that is right for you:

1. How many employees do you have?
2. Do you want to make regular contributions on behalf of your employees or just when you can afford it?
3. Do you want to allow your employees to contribute to the plan?
4. Do you want to allow your employees to save as much as possible?
5. Are you willing to pay for plan administration?

As you read through the following descriptions of the various small business retirement plans you’ll begin to understand how the answers to these questions will help you decide which type of plan is right for you.
SEP & SIMPLE IRAs

Offering an employer sponsored retirement plan can be beneficial; but it may require both an administrative and financial commitment. A SEP IRA or SIMPLE IRA may be an easier and lower cost alternative to operating other types of retirement plans. Several advantages of offering a SIMPLE or SEP include:

- Employers can help employees set up their IRAs.
- The plans are relatively easy to set up.
- Plan administration is relatively simple.

SEP IRAs

What is a SEP IRA?

A SEP (Simplified Employee Pension) IRA is an employer-sponsored retirement plan that is funded by employer contributions only.

How is a SEP IRA Established?

A SEP is established by adopting a SEP agreement. This can be obtained at IRS.gov (Form 5305-SEP). Some financial services companies may also provide you with a prototype SEP agreement when you establish a SEP IRA.

How much can be contributed to a SEP IRA?

The employer can contribute up to the lesser of 25% of an employee’s compensation or $52,000 (2014).

Must SEP contributions be made every year?

No, contributions are not required to be made every year. However, any year contributions are made, they must be made for every eligible employee.

Steps to establish a SEP

| Step 1 | Obtain a SEP plan document (Form 5305-SEP), either from the IRS or the financial institution with whom you will set up the SEP. |
| Step 2 | Provide eligible employees with a copy of the SEP plan document and work with your financial advisor or institution to set up a SEP IRA for each eligible employee. |
| Step 3 | Contribute to each participant’s SEP IRA before the deadline, which is when the employer’s tax return is due (plus extensions). |
SIMPLE IRAs

What is a SIMPLE IRA?

A SIMPLE (Savings Incentive Match Plan for Employees) IRA is an employer-sponsored retirement plan that can be funded with both employer and employee pre-tax contributions. SIMPLE IRAs give employees the ability to defer a portion of their salary into their own retirement account in addition to the employer’s contribution. There is a 100 employee limitation.

How is a SIMPLE IRA Established?

The employer sets up the plan by obtaining a SIMPLE plan document from IRS.gov or their financial institution. The employer must decide whether all employees will all have to use the same financial services company (use Form 5305-SIMPLE), or whether they can select their own financial services company (use Form 5304-SIMPLE).

How much can be saved in a SIMPLE IRA?

Employee Contribution - Salary Deferrals: up to $12,000 per year - $2,500 catch-up for participants over age 50 (2014).

Employer Contribution: The employer has the following two choices on how they make contributions.

1. Matching Contributions: The employer must match the amount of the employee’s salary deferral up to 3% of the employee’s compensation. The employer does not have to make a contribution for employees who choose not to defer any salary.

2. Nonelective Contributions: Instead of making a matching contribution, the employer can elect to make a contribution of 2% of compensation for all eligible employees (There are limitations on compensation, e.g. $260,000).

Which employer contribution option should I choose?

If the Matching Contributions Option is elected, the amount of salary deferrals made by the employees will determine the amount of the employer contribution. Under the Non-elective Contributions Option, the employer contribution is 2% of employee compensation regardless of employee salary deferrals (There are limitations on compensation, e.g. $260,000). Therefore, the employer contribution under the Matching Contributions Option is dependent upon employee participation while the Non-elective Contributions Option provides a more predictable employer contribution. The option that is best for you and your business should be reviewed with your financial and/or tax advisor.

Steps to establish a SIMPLE

Step 1 Obtain a SIMPLE plan document from IRS.gov or your financial institution. Use Form 5305-SIMPLE if you would like to work with one financial institution or form 5304-SIMPLE if you would like to give your employees the ability to choose their own financial institution.

Step 2 Select the employer contribution option. The employer contribution can be either a dollar for dollar match up to 3% of compensation or a 2% non-elective contribution.

Step 3 Provide employees with a copy of the IRS form you selected and work with your financial advisor or institution to establish a SIMPLE IRA for each eligible employee.

Step 4 Send salary deferral contributions to the financial institution on behalf of the employee as soon as administratively feasible, but no later than 30 days after the end of the month for which the contributions are made to be made. Make the matching or non-elective contribution to the employees SIMPLE account no later than the due date for the employers tax return (including extensions).
401(k)s

401(k) plans can offer the employer additional flexibility in plan design and higher contribution limits for employees. The advantage to the employer is that various plan design features may allow the employer to maximize their own contributions. However, 401(k) plans have additional administrative requirements.

What is a 401(k)?
A 401(k) plan is a qualified plan that allows an employee to defer a portion of their wages to the plan on a pre-tax basis. The employer can also design the plan to provide a match or profit sharing contribution. A 401(k) plan can also have a Roth 401(k) option, which allows after tax deferrals.

How is a 401(k) established?
A 401(k) is established by adopting a 401(k) plan document. The plan document is typically provided by a financial institution or third party administrator and allows some customization in design. The plan must be established by December 31st of the year for which plan contributions are to be made.

How much can be contributed to a 401(k)?
Employee elective salary deferrals: up to $17,500 ($23,000 if over age 50)(2014).

Employer contribution: The employer can provide a match or profit sharing contribution. The sum of the employee elective salary deferral, match, and profit sharing contribution (all sources) cannot exceed $52,000 or the lesser of 100% of employee compensation (2014).

Can I have a 401(k) if I am the only employee in my company?
Yes. An owner employee can establish a Solo-401(k) plan if they do not have any employees other than their spouse.

Steps to establish a 401(k)

**Step 1** Work with your financial advisor or plan administrator to determine your objectives and the appropriate plan design.

**Step 2** Notify employees and provide a summary plan description. Provide employees with an election form so that they can specify how much salary they want to defer.

**Step 3** Work with your financial advisor and/or plan administrator to coordinate employee and employer contributions to the plan.

Transamerica is working with Dedicated Defined Benefit Services, a small business retirement plan expert and third party administrator. They specialize in the design and administration of Individual 401(k) plans for the small business owner. For a consultation or an illustration request, contact a Dedicated Defined Benefit sales consultant at 866-765-6321 or visit their website at onepersonplus.com/transamerica.
Defined Benefit Plans

A defined benefit plan is designed to provide a stream of income at retirement that is based on a predetermined formula. In some cases, the employee may have the option to choose either a stream of income or a lump sum payment at retirement. The employer is responsible for ensuring the plan is funded to provide the benefit defined by the terms of the plan. The annual contribution requirement is the amount necessary to fund the required benefit at retirement as calculated by the plan actuary. The responsibility of funding the benefit is up to the employer. This type of plan typically requires a substantial financial commitment. However, one of the advantages of a defined benefit plan is that it can offer a relatively large annual tax deductible contribution for the employer.

What is a Defined Benefit plan?

Unlike other plans that allow a specific current contribution, a defined benefit plan provides a specific benefit at retirement. Annual employer contributions to the plan are mandatory, regardless of business’ profitability. Therefore, businesses with an uneven or unpredictable cash flow should use caution when selecting a defined benefit plan.

How is a Defined Benefit plan established?

A defined benefit plan is established by adopting a defined benefit plan document. The plan document is typically provided by a third party administrator or financial institution and allows some customization in plan design. It is the employers obligation to ensure the plan is adequately funded.

How much can be contributed to a Defined Benefit plan?

There is no specific limit on contributions to a defined benefit plan other than the amount necessary to actuarially fund the future benefit obligations of the plan. This amount can be much larger than contributions allowed under other plans. However, there is a limit on the annual benefit that may be paid from a defined benefit plan. For 2014, the benefit limit is $210,000 (indexed annually for inflation).

Can I have a Defined Benefit plan if I am the only employee in my company?

Yes. An owner employee can maintain a solo defined benefit plan if they do not have any employees other than their spouse.

Steps to establish a Defined Benefit plan

Step 1 Work with your financial advisor or plan administrator to assist in establishing the plan and help with notifying employees of their eligibility.

Step 2 With the help of your plan administrator, determine the desired retirement income benefit formula.

Step 3 Work with your financial advisor or plan administrator to determine how much should be added to the plan on an annual basis.
## Facts at Glance: Comparing Retirement Plan Options

<table>
<thead>
<tr>
<th></th>
<th>SEP (Simplified Employee Pension)</th>
<th>SIMPLE (Savings Incentive Match Plan for Employees)</th>
<th>401(k)</th>
<th>Defined Benefit Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Best For</strong></td>
<td>Companies that do not want the costs of a qualified plan. The company is willing to fund 100% of the plan contributions.</td>
<td>Companies with fewer than 100 employees that do not want the costs of a qualified plan and want the employees to fund part of their plan.</td>
<td>Employers wanting a plan that allows employee elective salary deferrals and the possibility for employer contributions.</td>
<td>Employers that want a pre-defined retirement benefit and want to make large tax deductible contributions.</td>
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<tr>
<td><strong>Who Administers the Plan</strong></td>
<td>The employer administers the plan.</td>
<td>The employer administers the plan.</td>
<td>Third party administrators, record keepers and/or the employer.</td>
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</tr>
<tr>
<td><strong>Employer Contributions</strong></td>
<td>Yes, lesser of 25% of compensation or $52,000 (2014).</td>
<td>Yes, dollar for dollar match up to 3% of employees compensation or 2% non-elective contributions.</td>
<td>Not required. The plan can provide a match or profit sharing contribution. Employer and Employee contributions together cannot exceed $52,000 (2014) or the lesser of 100% of the compensation. The deferral limit for 2014 is $17,500.</td>
<td>Actuarially computed.</td>
</tr>
<tr>
<td><strong>Employee Contributions</strong></td>
<td>None.</td>
<td>Yes, salary reduction up to $12,000 ($14,500 over 50) (2014).</td>
<td>Yes, salary reduction up to $17,500 ($23,000 over 50) (2014).</td>
<td>None.</td>
</tr>
<tr>
<td><strong>Last Date for Contributions</strong></td>
<td>Due date of employer’s return (including extensions).</td>
<td>Salary Deferral: As soon as administratively feasible, but in no event later than 30 days after the end of the month for which the contributions are to be made. Employer Contribution: Due date of the employer’s tax return (including extensions).</td>
<td>Salary Deferral: As soon as administratively feasible, but in no event later than 15 days after the end of the month for which the contributions are to be made. There is a safe harbor of 7 business days for deposit of elective deferrals for plans under 100 participants. Applies to both 401(k) and Roth 401(k) plans. Employer Contribution: Due date of the employer’s tax return (including extensions).</td>
<td>On or before employer’s due date for filing federal tax returns (including extensions).</td>
</tr>
<tr>
<td><strong>Plan Setup Deadline</strong></td>
<td>Anytime up to the due date of employer’s tax return (including extensions).</td>
<td>Anytime between January 1st and October 1st of the calendar year. As soon as administratively feasible for new employers coming into existence after October 1st.</td>
<td>December 31st of each year (or end of employer’s tax year).</td>
<td>December 31st of each year (or end of employer’s tax year).</td>
</tr>
<tr>
<td><strong>Form Used to Establish Plan</strong></td>
<td>5305-SEP.</td>
<td>5304-SIMPLE (employees select financial institution) or 5305-SIMPLE (employer selects a single financial institution).</td>
<td>Plan Document.</td>
<td>Plan Document.</td>
</tr>
<tr>
<td><strong>Employee Eligibility Requirements</strong></td>
<td>1. Reached age 21. 2. Received at least $550 in compensation for the year. 3. Has worked for the employer in at least 3 of the last 5 years.</td>
<td>1. At least $5,000 of compensation for the calendar year. 2. A minimum amount of prior compensation specified by the employer (not to exceed $5,000) during any of the 1) current year; 2) prior year; 3) or two years preceding the current calendar year (employer selects the time frame).</td>
<td>Specified by plan document. (Minimum eligibility requirements apply)</td>
<td>Specified by plan document. (Minimum eligibility requirements apply)</td>
</tr>
</tbody>
</table>
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There is no additional tax-deferral benefit derived from placing IRA or other tax-qualified funds into an annuity. Features other than tax-deferral should be considered in the purchase of a qualified annuity.

Withdrawals of taxable amounts are subject to ordinary income tax and if taken prior to age 59½, a 10% federal tax additional may apply. Variable annuities are subject to investment risk, including possible loss of principal. Annuities are long-term tax deferred vehicles designed for retirement purposes.

**Before investing, consider a variable annuity’s investment objectives, risks, charges and expenses. Call 1-800-525-6205 for a contract and fund prospectus containing this and other information. Please read it carefully.**

This information should not be construed as tax advice. Clients should consult a qualified tax advisor regarding annuity taxation as it applies to their specific situations.