Retirement. The beginning of a new chapter in the life of a small business owner. Everyone dreams about the transition from the world of work to the freedom that retirement brings. Maybe one of your initial reasons for starting a business was the desire to retire early, or to ensure a secure retirement for yourself and your family. You are not alone in your desire for that independence and peace of mind.

The National Association for the Self Employed is here to provide you with the knowledge to make retirement planning less painful. As a business owner you understand the right knowledge is crucial to your business success. Here’s what you need to know about retirement planning.
KNOW YOURSELF

When building a business it’s important to understand who your customers are and what those customers need. When planning for retirement it’s important to know what YOU want and what YOU need. Everyone’s vision of an ideal retirement is different. When you picture yourself in retirement what do you see? Do you envision a highly active lifestyle with constant travel, filled with your favorite hobbies and entertainment? That sounds wonderful, but know that you will need to plan for those additional expenses. Do you see yourself living a low key lifestyle, nurturing your close relationships and enjoying the simple things in life? Whether you plan on globe-trotting or staying close to home, you can plan ahead for your retirement dream. Get specific. Where will you live? What is the cost of living in that area? Will you have educational expenses for children or grandchildren during your retirement? Will aging parents need your financial support? A clear understanding of your wishes and dreams for retirement, as well as your responsibilities and possible challenges, will help form the pieces of your retirement puzzle into a complete picture.

KNOW YOUR NUMBERS

Next, do some calculations to determine how much income you will need each year to fund your retirement vision. As an entrepreneur you are in control of the choices you make concerning your business. You budget for necessities such as a mortgage or rent, utilities, insurance and supplies.

You’ll do similar decision making and budgeting in planning for retirement. Review the retirement activities and expenses you identified. After taking inventory of those costs, what annual income will you need to fund your retirement lifestyle? Using an estimated life expectancy of between 80-85 years and a retirement age between 60-65 years, we can expect about 25 years of retirement. If your estimated annual income needs are $50,000 per year, you would need $1,250,000 in total savings. Wondering if you should factor Social Security into your annual retirement income? Experts have traditionally included those benefits into their calculations. Unless you are already very close to retirement, things have changed. Many experts now choose to be cautious, disregarding those amounts due to proposed legislation changes. There is no guarantee Social Security will continue.

Estimated Life Expectancy

80-85 Years

Retirement Age

60-65 Years

$1,250,000
to exist in its current form, or exist at all, by the
time you reach retirement age. You can plan for a
secure retirement based on your own calculations,
independent of legislative outcomes. If Social
Security benefits are still available when you retire,
you receive an unexpected income increase!

KNOW YOUR OPTIONS

Now you are clear on the life you want to live in
retirement and the amount of income you need.
How do you start moving toward your goals?

There are three retirement plan options well suited
to small business owners. They each have unique
features to consider. All options allow you to make
tax free contributions to the plan, lowering your
taxable income. The contributions are also tax
deducted, allowing you to grow tax free
until the funds are withdrawn. If you need to draw
from these accounts before age 59½, a 10% early
distribution penalty applies.

These retirement accounts are easily accessible
and widely available. Opening a new retirement
account can be an opportunity to strengthen your
relationship with your current financial provider, or
build a new one.

SEP-IRA

How much can I contribute?

A SEP-IRA (Simplified Employee Pension Plan)
allows you to stash away 25% of your self-
employment business earnings. The maximum
contribution is $56,000 for 2019. Since the
contribution is not due until your tax return is filed,
this allows you the flexibility to increase or decrease
your contribution based on your business income.

Small business owners experience ups and downs.
In higher income years, you can contribute more.
In leaner times, you can opt for a lesser amount
or even forgo that year’s contribution. You are not
obligated to contribute every year.

What else should I consider?

SEP-IRAs are funded by the employer only. If you
have employees you must make contributions for
them at the same percentage rate as your own. For
example, if you contribute 10% of your earnings
for yourself, you must contribute 10% for each
employee as well. The contributions you make are
tax deductible business expenses.

SIMPLE IRA

How much can I contribute?

A SIMPLE IRA (Savings Investment Match Plan
for Employees) is funded by both employer and
employee contributions. Employees contribute
to the plan through a pre-tax payroll deduction.
Business owners either match those employee
contributions up to 3% of an employee’s
compensation or make a flat 2% contribution on
behalf of all employees, regardless of the employee
contribution. For example, if you choose the flat 2%
contribution and your employee Sam Smith earns
$20,000 in W-2 wages, you must contribute $400 for
Sam. If you choose the matching option, and Sam
contributed $1,000 of his $20,000 wages to the plan,
you would make an employer contribution of $600
for Sam. If you choose the matching option but
Sam makes no contributions on his own, you would
not make a contribution for Sam. The maximum
contribution to a SIMPLE IRA for 2019 is 100% of
compensation, up to $13,000. If you are over 50
years old, that maximum increases to $16,000.
What else should I consider?
This plan has a higher penalty for withdrawing funds prior to retirement age. Any distributions taken within the first two years of plan participation and before age 59 ½ are subject to a 25% early withdrawal penalty in addition to your current tax rate.

SOLO 401(k) or SELF EMPLOYED 401(k)
How much can I contribute?
401(k) plans have become the retirement plan of choice for large corporations due to their flexibility, high contribution limits and employee ownership qualities. These plans are also available to micro business owners, covering you, the owner, and your spouse. The solo 401(k) allows you to make contributions as both an employer and an employee of your business. For 2019, you can make payroll contributions up to $19,000 as an employee. As an employer, you can make a profit sharing contribution up to 25%. That’s a possible $56,000 in plan contributions.

What else should I consider?
There is more paperwork necessary to administer this plan. A solo 401(k) plan may need more documentation updates due to legal changes. The solo 401(k) also requires an annual tax filing (Form 5500) when plan assets exceed $250,000.

KNOW THE RIGHT EXPERTS
The NASE understands that collaboration with the right partners, connections and networks is key to growing a business. That’s why we offer 24/7 access to experts to assist you in all aspects of your business, from Information Technology to Marketing. Certified Financial Planners and tax advisors can assist you in moving toward your retirement vision. Certified financial planners offer a variety of services to meet your specific needs. This can range from simply reviewing a retirement plan you have created to organizing your information into a formal written plan.

KNOW WHEN TO PIVOT
Things can, do, and will change. We know this to be true in business and in life. A business can experience a downturn or a boom. A succession in a family business can affect business plans and profits. As things change be sure to build those new circumstances into your retirement plans as well as your business plans. A paid off mortgage can result in lower housing expenses in retirement. Assisting a young family member in starting a business of their own can increase your expenses. Account for these changes in your numbers to keep your plan current.

CONCLUSION
You can move toward your retirement vision while building a business at the same time. Creating a solid plan and taking action are your first steps toward success. With the right mindset, focus, and a clear mission, retirement planning need not be a tedious task. Use careful self-assessment and your knowledge base to get your plan on the right track.
Member Benefits
Visit NASE.org to learn more about the following benefits!

Running your business gives you enough to think about every day, planning ahead and making improvements to your business can easily get put on the back burner.

Apply for an NASE Growth Grant: a new winner is chosen each month to be awarded up to $4,000 grant to support the growth of their business.

Creating a job for your child can be a rewarding experience for both you and the child. A job can promote maturity, understanding, a sense of pride and self worth. However, creating this new job will do one thing for sure, and that is save you thousands of dollars in taxes. Click Here to get started!
Finally, after nearly six years of active advocacy efforts, the Trump Administration announced on June 14, 2019, new rule on how Health Reimbursement Arrangements (HRA) can be leveraged by small employers. The rule undoes an Obama administration action that severely limited how businesses could utilize HRAs.

Under the proposed rule, employees can spend the money in their HRA accounts on policies they may prefer outside the workplace. The funds are tax free to both the employer and employee. Additionally, leftover funds can roll over from year to year. This revised HRA rule is expected to give an estimated 800,000 businesses more options in obtaining health insurance.

Starting on January 1, 2020, employers will be able to offer their workers HRAs to buy individual market coverage for themselves and their families. “Too many Americans today have little say in how their healthcare is financed,” said HHS Secretary Alex Azar, one of three cabinet departments that joined in issuing the rule. “President Trump has promised Americans that he will put them in control of their healthcare, and this expansion of health reimbursement arrangements will help deliver on that promise by providing Americans with more options that better meet their needs. This rule and other Administration efforts are projected to provide almost 2 million more Americans with health insurance.”

In effect, individual coverage HRAs extend the tax advantage for traditional group health plans (exclusion of premiums, and benefits received, from federal income and payroll taxes) to HRA reimbursements of individual health insurance premiums, the administration explains.

The rule includes guardrails as well. Firms that offer an individual coverage HRA must offer it on the same terms to all individuals within a class of employees, such as their salaried or wage workers or their full-time or part-time workers, etc. Contributions would have to be equal for everyone in the class, but they can be varied by age and number of dependents. Employers can contribute as little or as much as they want to an individual coverage HRA.

The final rule contains another provision for “Excepted Benefit HRAs” (EB-HRA). This will allow an employer to deposit up to $1,800 a year into a separate employee EB-HRA account. The money can be used to help cover the cost of copays, deductibles, or noncovered expenses, but not to pay premiums for traditional insurance.

The EB-HRA can be used, however, to reimburse premiums for dental and vision coverage, as well as for short-term insurance plans, which typically cost 40% to 60% less than ACA plans. The rule explains how employers can structure the HRA so they are in compliance with the employer mandate. To prevent adverse selection, an employer must offer either the HRA option or traditional insurance to each class of employees. Individual employees cannot opt in or out on their own.

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In Case You Missed It!

In case you missed some of the things the NASE has been doing or if you didn’t see the helpful articles we published recently on our website, we have highlighted a few below!

National Association for the Self-Employed to Attend Today's White House Rose Garden Ceremony on New HRA Announcement

Published June 14, 2019

This afternoon at 3:30 pm (ET), Katie Vlietstra, Vice President for Government Relations and Public Affairs for the National Association for the Self-Employed (NASE), the nation's leading advocate and resource for the self-employed and micro-businesses, has been invited to attend a White House Rose Garden ceremony announcing an expansion of Health Reimbursement Arrangements (HRAs) granting greater flexibility and allowing employers to assist employees in using HRA's to pay for health insurance coverage.

Click to read more

Database For Self Employed: Everything You Need to Know

Published June 24, 2019

We are living in a world of abundant data and all that data is collectible for marketing purposes. A lack of data can hinder a company in a big way. Not knowing who your customers are, what they want, or how they react to marketing will negatively impact your company. That is why collecting proper data is crucial for business, no matter if you're self-employed or a large corporation.

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