



# SMALL BUSINESS. BIG OPPORTUNITY.

Retirement plans for small-business owners



Allianz Life Insurance Company of North America  
Allianz Life Insurance Company of New York

# Small business, big rewards

As a small-business owner, you've taken some risks. **Don't miss out on the potential retirement rewards.**

As the owner of a small business, you've assumed the risk of going it alone. But while going into business can be financially risky, with the proper planning, going into retirement doesn't have to be.

There are several retirement plans designed specifically for small-business owners that can help you focus on your business today and have the potential to reap the retirement rewards tomorrow.

Take the first step to creating your retirement plan. Learn more about which plan you may want to consider.

## DIFFERENT PLANS FOR DIFFERENT SITUATIONS

Small-business owners don't typically expect a gold watch when they retire – but they do still expect to enjoy their golden years. With a little preparation (and a solid strategy), you and your financial professional can help you turn your successful business into a successful retirement.

There are several tax-advantaged plans that may help you save for retirement, while potentially reducing your current tax burden. Which of these may be appropriate for your needs depends in part on what your goals are and on how many employees your business has. Among the solutions you may consider are:

- **Individual 401(k)**
- **Simplified Employee Pension (SEP) plan**
- **One-person defined benefit plan**
- **Savings Incentive Match Plan for Employees (SIMPLE)**

Each of these plans has unique benefits and limitations. Work with your financial professional and tax advisor to help determine which plan may be appropriate for you.

## ACTIVELY MANAGING YOUR RETIREMENT ASSETS

### While you're working

If you've already accumulated savings from other workplace retirement plans, those dollars can be rolled directly into a SEP IRA or an individual 401(k)

(if the receiving plan permits it). Combining all retirement plan assets into your current company plan or your own IRA offers several advantages, including:

- More efficient management of assets – it is easier to track all of your retirement assets if they are under one roof.
- Less paperwork – you don't have to receive statements and documentation from a variety of sources.
- Better control of your future – managing your workplace-based retirement savings in a single plan or single IRA may make it easier for you to determine where you stand and help you implement changes, as needed.

However, there are many factors involved in any decision to move money between retirement plans and IRAs. For a more extensive discussion of the factors, ask your financial professional for a copy of the brochure titled "Distributions from your employer-sponsored retirement plan – Understanding your options" (AMK-068-N). This brochure describes advantages, limitations, and additional considerations for five basic options: **1)** Take a lump-sum distribution, **2)** leave funds in an employer's plan, **3)** transfer assets to a new employer's plan, **4)** roll over funds to a traditional IRA, or **5)** roll over funds to a Roth IRA.

Rolling over from a qualified plan to an IRA or from an IRA to a qualified plan does not assure positive results or that sufficient funds will be available for retirement. You should consult your tax advisor prior to taking any action with your qualified plans or IRAs.

### At retirement

Don't let concerns about what happens to your workplace savings plan at retirement affect your decision. When that time comes, you typically have complete flexibility to move assets from the individual 401(k) plan or defined benefit plan you created to an IRA.

# Individual 401(k)

An individual 401(k) plan is similar to those sponsored by larger companies, but offers a manageable level of administration. Significant contributions can be made to both plans. However, an individual 401(k) is designed for companies where the business owner(s) and spouse(s) are the only eligible employees. Note that an individual 401(k) plan will become a regular 401(k) plan if eligible employees are hired and participate in the plan.

## A 401(K) OFFERS:

- Greater contribution limits compared to most other plans
- Flexibility (annual contributions are not required)
- Limited reporting requirements and simplified administration
- Tax-deductible contributions and tax-deferred growth
- An option to exclude part-time employees who work fewer than 1,000 hours per year (500 hours in at least three consecutive years plus years beginning after 12/31/20)

## AN INDIVIDUAL 401(K) MAY BE SUITABLE FOR:

- Small businesses with no full-time employees other than business owner(s) and spouse(s)
- S and C corporations
- Sole proprietorships
- Partnerships
- Limited liability companies

## CONTRIBUTION LIMITS AND ADMINISTRATION

In 2020, a 401(k) plan allows for a business contribution of up to 25% of compensation and employee salary deferrals of up to \$19,500 (\$26,000 for employees age 50 and older). Total plan contributions per participant cannot exceed \$57,000 in 2020 (\$63,500 if age 50 or older).

An individual 401(k) plan must be established through a third party administrator, and IRS Form 5500 must be filed when plan assets exceed \$250,000 or at plan termination. The plan must be established by December 31 or by the end of the business's fiscal year, if the plan year is the fiscal year. However, salary deferrals cannot be made retroactively.

## Here's an example of how an individual 401(k) might work.

Brenda Blake, age 49, is a successful real estate agent, supported in her job by her husband, Frank, who takes care of the books. Brenda pays herself \$100,000 in salary per year, and Frank earns another \$60,000 for his work. Brenda also hires college students to do part-time work, but none of the students puts in more than 5-8 hours a week. Brenda and Frank need to build their retirement savings quickly.

Brenda chooses an individual 401(k), which allows her to:

- Contribute \$44,000 to her plan (with a SEP, her contribution would have been limited to \$25,000).
- Make contributions for Frank as well, as he is a full-time employee.
- Avoid any requirement to make retirement plan contributions for the college students who work part-time.

This hypothetical example is shown for illustrative purposes only and does not represent actual Allianz Life Insurance Company of North America (Allianz) and Allianz Life Insurance Company of New York (Allianz Life® of NY) clients.

# Simplified Employee Pension (SEP) plan

A SEP plan offers your employees a competitive retirement plan that **requires little administrative attention.**

As the name implies, a Simplified Employee Pension (SEP) plan requires minimal administration and paperwork. A SEP plan is an IRA-based retirement plan that can give you an effective way to accumulate tax-deferred retirement savings while offering your employees a competitive retirement plan. The contribution limits for SEP plans have increased in recent years, making them even more attractive to small businesses.

## A SEP PLAN OFFERS:

- Large contribution limits (25% of compensation, not to exceed \$57,000 in 2020)
- Flexibility (there are no annual contribution requirements)
- Minimal administration and no reporting requirements
- Tax-deductible contributions into SEP IRAs, which provide tax-deferred growth
- A desirable retirement benefit to help attract and retain employees
- Employee-selected SEP IRAs to receive the SEP plan contributions
- The option to exclude certain employees

## A SEP PLAN MAY BE SUITABLE FOR:

- S and C corporations
- Sole proprietorships
- Partnerships
- Nonprofit organizations
- Government entities
- Limited liability companies

## CONTRIBUTION LIMITS AND ADMINISTRATION

In 2020, the maximum contribution for each participant in a SEP plan is 25% of compensation, not to exceed \$57,000.

Note that if a contribution is made, the employer must generally contribute an equal percentage of compensation for all eligible employees.

Administration is simple: You need only complete Internal Revenue Service (IRS) Form 5305-SEP to establish the plan, and no annual employer tax filing is required.

The deadline for establishing a SEP IRA is the business tax filing deadline (including extensions) or, if you're a sole proprietor, the same as your personal tax filing deadline (including extensions).

## Here's an example of how a SEP plan might work.

Susan Martin owns a small but profitable pet shop which employs six other employees. She is concerned about building a larger retirement nest egg for herself, and also wants to create an additional benefit for her hard-working employees.

Susan determines that a SEP plan will provide her with what she needs. In particular, Susan feels the SEP plan works for her company because:

- It gives her the flexibility to alter contribution percentages each year, so she can adjust it based on her company's annual cash flow situation.
- It allows her to reduce her tax liability by making tax-deductible contributions to the plan.
- Most important to Susan, it gives her the opportunity to greatly increase her retirement savings by putting thousands of dollars into her own SEP IRA this year through the SEP plan contribution.
- Susan can (and if she makes a contribution in any year, must) reward eligible long-term employees by adding to their retirement savings.
- It's easy. The SEP plan is much simpler than other qualified plans that require complex testing and reporting.
- It's cost-effective since she's not spending valuable resources on extensive paperwork and bookkeeping.

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# One-person defined benefit plan

A one-person defined benefit plan is a qualified retirement plan in which annual contributions are made to fund a chosen level of retirement income at a predetermined retirement date.

An actuary must evaluate the plan annually to determine the required contribution based on a variety of factors, including investment performance, the participant's age, and his or her compensation. While this plan is more expensive to set up and administer, it does potentially allow for the highest contributions of all plans highlighted in this brochure.

## A ONE-PERSON DEFINED BENEFIT PLAN OFFERS:

- The potential for substantially higher contributions than other retirement plans, especially at older ages
- Tax-deductible contributions
- The plan's trust grows tax-deferred

## SUITABLE CANDIDATES FOR A ONE-PERSON DEFINED BENEFIT PLAN GENERALLY INCLUDE:

- Owner-only businesses with no full-time employees (this is required)
- Plan participant is over age 40
- Participant has at least \$50,000 per year to contribute to the plan, and at least \$100,000 in annual compensation
- Expects to be able to make this contribution for at least three years

## CONTRIBUTION LIMITS AND ADMINISTRATION

An actuary must review your plan annually and determine the required contribution. Contribution requirements may vary every year, depending on investment performance, the participant's age, and his or her compensation.

## Maximum annual contribution estimates

Age	Annual compensation <sup>1</sup>				
	\$50,000	\$100,000	\$150,000	\$200,000	\$250,000
35	\$14,500	\$29,000	\$43,500	\$58,000	\$72,500
40	\$18,200	\$36,500	\$54,800	\$73,100	\$91,400
45	\$26,600	\$53,300	\$80,000	\$106,600	\$133,400
50	\$32,100	\$64,200	\$96,300	\$128,500	\$160,600
55	\$38,600	\$77,300	\$115,900	\$154,600	\$193,200
60	\$38,800	\$77,600	\$116,500	\$155,300	\$194,200
65	\$33,900	\$67,900	\$101,900	\$135,900	\$169,900

<sup>1</sup> Assumes the following. If actual situation differs or actuary uses different assumptions, the contribution may be different.

**Retirement age:** the later of age 62 or 5 years of participation in the plan. **Business start date:** January 1, 2017. **Entity type:** Corporation. Contributions might differ for sole proprietors. **Income type:** W-2.

**Source:** Dedicated Defined Benefit Services, LLC, [www.onepersonplus.com/onepersonplus/idealclients\\_opp.pdf](http://www.onepersonplus.com/onepersonplus/idealclients_opp.pdf).

The chart approximates the maximum initial plan contribution based on an owner of various ages and at various annual compensation levels who plans to retire at the later of age 62 or after five years of participating in the plan. Contribution calculations will vary based on the actuarial assumptions chosen by the actuary.

A one-person defined benefit plan must be established through a third party administrator, and requires that IRS Form 5500 be filed every year once plan assets reach a sufficient level. The deadline for establishing this plan is December 31 or the end of the business's fiscal year, if the plan year is the fiscal year.

Even though there is only one person in the plan, the benefit in the plan depends on the plan provisions, not the amount accumulated in the plan. Funds in the plan are not allocated to the one participant – the participant may not have access to all the funds in the plan, or the plan may need to be amended to grant access to the maximum extent possible. Some funds in the plan's trust may need to revert to the employer.

## Here's an example of how a one-person defined benefit plan might work.

Lance Billings is a consultant in the construction industry. He plans to work another 10 years, up to his 60<sup>th</sup> birthday. Since his wife, Deidre, makes a comparable salary in her job, they are able to save a significant portion of their income. They try to put away as much as possible in tax-deferred savings, but are limited by traditional defined contribution plans.

Lance has decided that a one-person defined benefit plan will give them what they are looking for, since it offers:

- Maximum contributions to a tax-advantaged retirement plan
- The ability to effectively defer current income through employer contributions to a defined benefit plan
- The opportunity to fund a plan that will provide income for Lance and Deidre in retirement

Note that Lance will be the one and only participant in the plan.

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# Savings Incentive Match Plan for Employees (SIMPLE)

A SIMPLE plan offers employees higher contribution limits and **requires minimal employer contributions.**

A SIMPLE plan is an IRA-based retirement plan that is largely funded with employee contributions from their salaries (salary deferrals), with a modest employer match. In many ways, a SIMPLE IRA plan resembles a 401(k) plan, but it's much easier and less expensive to administer than other qualified retirement plans. A SIMPLE IRA plan offers employees higher contribution limits than a traditional IRA and requires minimal employer contributions.

## A SIMPLE IRA PLAN OFFERS:

- Higher contribution limits for employees than those permitted by traditional IRAs
- If compensation is relatively low (e.g., \$50,000), higher contribution limits than a SEP IRA plan
- Minimal employer contribution requirements
- Minimal administration and no reporting requirements
- Tax-deductible contributions into SIMPLE IRAs, which provide tax-deferred growth
- A desirable retirement benefit to help attract and retain employees
- Employee-selected SIMPLE IRAs to receive the SIMPLE plan contributions, both salary deferrals and employer match
- The option to exclude certain employees

## SUITABLE CANDIDATES FOR A SIMPLE IRA PLAN INCLUDE:

- Business owners who have no retirement plan in place and have 100 or fewer employees who make more than \$5,000 per year

## CONTRIBUTION LIMITS AND ADMINISTRATION

- In 2020, an employee can make an elective deferral of \$13,500 (\$16,500 if age 50 and older), limited to 100% of compensation
- The employer must then generally make either:
  - A 3%-of-compensation match to the employees who contribute, or
  - A 2%-of-compensation contribution to all eligible employees whether or not they contribute

- The employer must notify employees each year of which contribution option is chosen

It's easy to establish a SIMPLE IRA. Just complete IRS Form 5304-SIMPLE; no annual employer tax filing is required. The deadline for establishing this plan is October 1.

## Here's an example of how a SIMPLE IRA might work.

Jose and Maria Martinez own a small landscape firm that employs four other employees. They don't want the expense of making large contributions for their employees, but they would like to provide a small benefit, as well as save for their own retirement. Jose and Maria decide to establish a SIMPLE IRA plan because:

- They can contribute significantly to their own retirement savings. Maria, who is under 50, can make salary deferral contributions of \$13,500. And since Jose is age 50, he can make salary deferral contributions of \$16,500. The plan will contribute these salary deferral contributions and any employer match to Maria's and Jose's SIMPLE IRAs.
- A SIMPLE IRA plan may allow Jose and Maria to make a smaller contribution for their employees even though they make a larger contribution (through salary deferral) for their own SIMPLE IRAs. To encourage their employees to contribute for their own SIMPLE IRA, they offer to match employee contributions up to 3% of pay.
- They can reward longer-term employees and exclude new employees from the plan by excluding certain employees. Employees who received at least \$5,000 in compensation from the landscape firm in any two previous years, and who are reasonably expected to receive at least \$5,000 in compensation during the calendar year in which the contribution is made, must be included.
- It's easy. Jose and Maria can establish a SIMPLE IRA by completing IRS Form 5304-SIMPLE. They do not need the assistance of a third party administrator.

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# The plans at a glance 2020

Features	Individual 401(k)	SEP IRA	One-person defined benefit	SIMPLE IRA
<b>Primary feature</b>	Higher contribution limits with minimal administration	No reporting requirements with minimal administration	Potentially substantially higher contributions allowed than other retirement plans, especially at older ages	Employees can contribute to their own retirement savings.
<b>Who contributes?</b>	Employee: contributions via salary reduction Employer: discretionary annual contributions	Employee: none Employer: discretionary annual contributions	Employee: none Employer: mandatory annual contributions	Employee: contributions via salary reduction Employer: mandatory annual contributions
<b>Setup and administration</b>	Establish with a third party administrator; IRS Form 5500 may be required	Establish with IRS Form 5305-SEP; no annual filing required	Establish with a third party administrator; IRS Form 5500 may be required	Establish with IRS Form 5304-SIMPLE; no annual filing required
<b>2020 contribution limits</b>	Employer contribution up to 25% of compensation and employee salary deferrals of up to \$19,500 (\$26,000 for employees age 50+). Total plan contributions per participant cannot exceed \$57,000 (\$63,500 if age 50+).	Employer contribution of up to 25% of compensation for each participant, not to exceed \$57,000	Contribution determined annually by an actuary. See chart inside for contribution illustration.	Employee can make an elective deferral of up to \$13,500 (\$16,500 for employees age 50+), limited to 100% of compensation.  Employer must generally make either 3%-of-compensation match to the employees who contribute, or 2%-of-compensation non-elective contribution to all eligible employees whether they contribute or not.
<b>Minimum employee coverage requirements</b>	Generally, must be available to owner(s) and spouse(s) who work at least 1,000 hours per year. Business cannot adopt an individual 401(k) plan if there are any full-time employees other than the owner(s) and spouse(s).	Generally, must be available to all employees who are at least 21 years old AND have worked for the employer for three of the last five years AND have earned income of \$600 (for 2020).	Generally, must be available to all employees who are at least 21 years old AND work at least 1,000 hours per year. Allianz and Allianz Life of NY cannot accept the plan as an annuity owner unless the owner is the sole full-time employee.	Generally, must be available to all employees who have compensation from the employer of at least \$5,000 in any prior two years and are reasonably expected to earn at least \$5,000 in the current year.
<b>Deadline for establishing the plan</b>	December 31, or fiscal year end	Business tax filing deadline (including extensions), or personal tax filing deadline for sole proprietor (including extensions)	December 31, or fiscal year end	October 1

Because of how a self-employed person's compensation is defined, as a self-employed business owner, you use a special formula to calculate the contribution to a retirement plan.

For example, to calculate the maximum contribution for an individual 401(k) or SEP plan (typically 25%), a sole proprietor or partner would take net income less ½ self-employment tax, times 20%. Your tax advisor can help you determine the maximum contribution in your specific situation.

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Purchasing an annuity within a retirement plan that provides tax deferral under sections of the Internal Revenue Code results in no additional tax benefit. An annuity should be used to fund a qualified plan based upon the annuity's features other than tax deferral. All annuity features, risks, limitations, and costs should be considered prior to purchasing an annuity within a tax-qualified retirement plan.

# TRUE TO OUR PROMISES ... SO YOU CAN BE TRUE TO YOURS.®

A leading provider of annuities and life insurance, Allianz Life Insurance Company of North America (Allianz) bases each decision on a philosophy of being true: **True to our strength** as an important part of a leading global financial organization. **True to our passion** for making wise investment decisions. And **true to the people we serve**, each and every day.

Through a line of innovative products and a network of trusted financial professionals, and with 3.7 million contracts issued, Allianz helps people as they seek to achieve their financial and retirement goals. Founded in 1896, Allianz is proud to play a vital role in the success of our global parent, Allianz SE, one of the world's largest financial services companies.

While we are proud of our financial strength, we are made of much more than our balance sheet. By being true to our commitments and keeping our promises, we believe we make a real difference for our clients. It's why so many people rely on Allianz today and count on us for tomorrow – when they need us most.

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(R-1/2020)