Choosing the Best Retirement Plan for Your Business

Experts estimate that American workers will need 70 to 90 percent of their pre-retirement income to maintain their current standard of living in retirement. Currently, only half of workers between the ages of 25-64 are in employer-sponsored retirement plans. According to the Social Security Administration, the average amount paid monthly to retirees is approximately $1,000 in 2021. That is why saving for retirement is one of the most important goals for every individual. Your company's retirement plan can offer both you and your employees a way to reach this goal — while providing valuable tax incentives. It can also help you attract and retain high-quality employees.

Deciding which plan best suits you and your employees can be confusing and often difficult to evaluate. Different plans have different features and can involve varying degrees of cost, communication and paperwork. Along with features, it is just as important to evaluate plan providers and compare their service, expertise, and investments choices.

Davenport & Company recommends and establishes retirement plans for a range of companies of all types and sizes. Even if you already have a retirement savings plan in place for your company, Davenport may be able to help by:

- Showing you how to lower your costs
- Providing an understanding of fees and expenses associated with plans
- Providing a broader selection of investment choices
- Educating and assisting your employees in planning for their future
- Reviewing and validating your current choices

Davenport & Company offers a wide range of retirement plan solutions for both individuals and companies. They include:

- Traditional IRAs, Roth IRAs, SIMPLE IRAs and SEP IRAs
- Profit Sharing Plans
- Pension Plans
- 401(k) and 403(b) Plans

Our Financial Advisors are backed by a team of retirement specialists who can help you choose the right plan for both company and personal needs. We can also assist you in installing your plan, providing you with Internal Revenue Service ("IRS") approved prototype plan documents, administrative guidelines, and the accompanying forms needed to establish and maintain your plan according to IRS and Department of Labor guidelines. Furthermore, as tax laws change, we also offer to maintain your documents to ensure that you stay in compliance.

Our ultimate goal is to help you and your employees achieve solid investment performance. Your Davenport Financial Advisor will assist you with making the appropriate investment selections that not only meet the standards you set for your plan, but also demonstrate to your employees your commitment to providing solutions to their particular needs and concerns.

Current law extends unique tax incentives to employers who establish qualified retirement plans. Qualified plans provide that all allowable amounts contributed by the employer are tax deductible to the business. The earnings and gains grow tax-deferred and are generally not taxable until they are withdrawn at retirement. Distribution amounts are also granted additional income tax advantages, including portability and continued tax deferral through transfer and/or rollovers to Individual Retirement Accounts. In addition, the SECURE Act of 2019 increased the small employer retirement plan startup tax credit from $500 to a maximum of $5,000 per year to cover startup costs for the first three years the plan is in effect.

While Davenport & Company does not provide tax reporting on retirement plans, your Davenport Financial Advisor will serve as a facilitator and assist in the careful considerations needed to establish and maintain your plan.

"Our ultimate goal is to help you and your employees achieve solid investment."

Understanding Your Choices

There are two basic types of qualified retirement plans: Defined Contribution Plans and Defined Benefit Plans. These plans must be established by the business' tax year-end; however, funding of the plan can be made until the tax filing due date, including extensions.

DEFINED CONTRIBUTION PLANS

In a Defined Contribution Plan, the employer generally makes a contribution to the plan on behalf of each eligible participant. The retirement benefit is not set — rather, it is an accumulation of contributions, earnings, and length of service. There are several plans that fall under the category of Defined Contribution Plans. The most popular are Profit Sharing Plans and 401(k) Plans.

PROFIT SHARING PLANS

The Profit Sharing Plan not only offers the greatest flexibility to the employer in terms of the amount of the contribution the company will make, it also allows the employer to decide from year-to-year if he or she will make a contribution at all. The contribution is generally a percentage of pay for each eligible participant but is not necessarily based on profits. The amount to be contributed each year is at the discretion of the employer.

- The employer's contribution is limited to the lesser of 25% of compensation or $58,000 (2021 COLA) per eligible participant
- Investment selections may be pooled for investing, or the employer may allow each participant to select from a menu of choices
- The plan may have a vesting schedule
- The plan may have age and service requirements
- Contributions may be deducted as a business expense
- Contributions grow tax-deferred
- Loan provisions and various distribution options are also available

401(K) PLANS

The 401(k) Plan is a profit sharing plan that allows employees to make their own contributions. Each eligible employee may request that the employer have part of his or her income contributed to the plan (deferred) instead of receiving it in his or her pay. Generally, these deferrals are made on a pre-tax basis, but employees could also be allowed to contribute after-tax monies.

The 401(k) Plan is the most popular retirement plan today for many reasons. Most importantly, it allows employees to make their own contributions — in addition to the employer's contributions — thereby shifting some of the financial responsibility to the employee, while still allowing the employer to make additional contributions in the form of a profit sharing contribution or matching contributions.

401(k) Plans

- The maximum contribution is $58,000 (2021 COLA) per participant and $64,500 for participants age 50 and older
- The maximum employee deferral amount is $19,500 (2021 COLA) per year, plus $6,500 for participants age 50 and older
- Investment selections may be pooled for investing, or the employer may allow each participant to select from a menu of choices
- The plan may have a vesting schedule for employer contributions; all employee contributions are 100% vested immediately
- The plan may have up to a one-year service and age 21 eligibility requirements
- The plan may allow employee deferrals only, but most provide an employer contribution as well, and it can be in the form of a matching contribution or a profit sharing contribution
- The employer contributions may be stated amounts or at the employer's discretion
- Employer contributions may be deducted as a business expense

SAFE HARBOR 401(K) PLANS

Special nondiscrimination tests are required in 401(k) plans to prevent large deferrals by highly compensated employees when rank and file employees are not participating or are participating at low levels. Congress established the Safe Harbor 401(k) Plan to encourage employers in these situations to still offer a 401(k) Plan. The Safe Harbor Plan is not subject to many of the complex nondiscrimination tests that apply to the Traditional 401(k) Plan. The amounts of employee pre-tax and employer matching contributions are not affected by the level of participation of the non-highly compensated employees.

The trade-off is that the employer must make a matching contribution of 100% of the first 3% of each eligible participating employee's deferral amount, plus an additional 50% matching contribution for deferrals that exceed 3% but do not exceed 5% of the employee's compensation.

Alternatively, an employer can make a contribution of 3% of pay for all eligible employees, whether they have made a deferral contribution or not. This plan feature is an option in the plan document.

DEFINED BENEFIT PLANS

With a Defined Benefit Plan, as the name implies, a specific benefit is promised to participants. While there is no limit to the amount that can be contributed, the amount of the benefit is often based on a set percentage of pay or a flat benefit based on years of service. The IRS sets the maximum benefit from year-to-year. In order to calculate how much needs to be contributed each year to reach that goal, actuarial principles are applied. Ages, mortality tables, IRS-approved interest rate assumptions, investment results, and compensation levels are applied by an actuary to determine the required annual contributions.

Defined Benefit Plans are more attractive to older, more highly-compensated employees, who are generally the owners or principals of a business. They work especially well with self-employed individuals and are also advantageous to closely-held corporations in which the owner(s) are nearing retirement.

- Contributions are mandatory and annually determined by an actuary
- The benefit is guaranteed and cannot exceed $230,000 (2021 COLA)
- The benefit formula can be a fixed amount or a percentage of pay; years of service are generally associated with the formula as well

Other Plan Types

Other retirement plans utilize Individual Retirement Plans Accounts (IRAs) and are especially attractive to new or small business owners.

SIMPLIFIED EMPLOYEE PENSION PLANS (SEP-IRA)

A SEP-IRA allows an employer to make the same tax-deductible contributions as other qualified plans, with little or no administration or IRS reporting and with greatly reduced costs. The contributions are made directly into the plan participant's IRA. They can even be co-mingled with an existing Traditional IRA. The employer's contributions are entirely flexible from year-to-year and can be skipped in a given year with no penalty. The contribution limits are like those of a Profit Sharing Plan: up to the lesser of 25% of compensation or $58,000 (2021 COLA). A major difference is that the plan does not have a vesting schedule as other qualified retirement plans may. All contributions are immediately 100% vested and belong to the employee upon deposit. Additionally, all eligible employees must be included, even part-time employees.

SIMPLE IRAS (SAVINGS INCENTIVE MATCH PLAN)

A SIMPLE IRA is similar to a Traditional 401(k) Plan. It allows eligible employees to contribute a portion of their income on a pre-tax basis to a SIMPLE IRA account. The employer has a choice of making a matching contribution on the first 3% of each participant's pre-tax contribution or a contribution of 2% for each eligible employee who has earned income of at least $5,000 for the year, even to those who have chosen not to make their own contributions. Because of these required contributions, the plan is not subject to many of the complex rules associated with Traditional 401(k) Plans. Any company with 100 or fewer employees who earn at least $5,000 in compensation the preceding year can establish a SIMPLE IRA.

- The maximum amount an eligible employee can contribute is $13,500 (2021 COLA)
- SIMPLE IRA participants age 50 or older can also make a catch-up contribution of $3,000 (2021 COLA)
- All contributions are 100% immediately vested
- Little or no government reporting is required
- Part-time employees cannot be excluded
- Contributions are tax-deductible for the employer and the employee
- Contributions are made into SIMPLE IRA accounts and not held in trust account
- SIMPLE IRAs are less expensive to establish and maintain than a Traditional 401(k) Plan

Committed to Your Success

At Davenport & Company our mission is simple, we want to help you achieve both your personal financial goals and the financial goals of your employees. Establishing the right retirement program to help you reach those goals is a responsibility we take very seriously. For more than 150 years, our clients have looked to us for trusted investment advice and to help them manage their money with care. Many of our Financial Advisors have been with us for more than a decade, many for two or three. In addition to being independent and 100% owned by our employees, there are many things that set us apart from other investment firms. Our emphasis is on doing what's right for the client.

We welcome the opportunity to assist you with your company's retirement program as well as helping you pursue your personal financial goals.

About Davenport & Company LLC

Davenport & Company, an employee-owned independent firm with offices throughout the mid-Atlantic, offers a range of wealth management and financial advisory services including traditional brokerage, professional money management, financial and retirement planning, market research, public and corporate finance. Since 1863, we have served a broad base of individuals and families as well as municipalities, foundations, and institutions. Our Asset Management group offers five publicly available mutual funds which have been recognized for excellence by Kiplinger and Morningstar, among others.

To learn more, visit www.investdavenport.com.

CORPORATE HEADQUARTERS:

One James Center • 901 East Cary Street, Suite 1100 • Richmond, Virginia 23219

(804) 780-2000 • www.investdavenport.com

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