



Getting in the Retirement Game

Big firms aren't the only ones primed to provide a retirement plan. If you own a small firm and aren't offering one, you may be missing out on valuable tax savings and other benefits.



ERIN BRERETON

Owner, Chicago Journalist Media

Like many business owners, attorneys who own small law firms have no shortage of daily tasks to take care of.

Small firms, in fact, ranked “spending too much time on administrative work” as their second biggest challenge, according to a 2016 Thomson Reuters study. Solo practitioners spend nearly half their time on non-law practice duties.

Adding one more — researching and implementing a retirement savings plan — isn’t a focus for many small firms as a result.

“The administration — government filings, adhering to regulations — can sometimes be overwhelming,” says Sherri Painter, a Senior Vice President with PNC’s Retirement Solutions group. “In [some] cases, they’ve got a partner who’s doing not only the legal work, but also the HR and treasury work. It’s just a question of where they can allocate their time, energy and resources.”

The Insured Retirement Institute projects 10,000 Baby Boomers will retire per day through at least 2030. Forty-five percent have nothing saved for retirement.

PLAN POSSIBILITIES

During the Great Recession — a period when, according to *The National Law Journal*, revenue per lawyer in small firms dropped by the largest percentage in 25 years — firm owners may not have been in a position to contribute to a plan.

More, however, are starting to think about how they'll leave the workforce, due in part to the Baby Boom generation's impending retirement, according to Howard.

The Insured Retirement Institute projects 10,000 Baby Boomers will retire per day through at least 2030. Forty-five percent have nothing saved for retirement.

"Everybody was so busy five to six years ago trying to just stay afloat," Howard says. "Baby Boomers are saying, 'Oh, now what?' It's hitting home."

Boomer-age and other small law firm owners can reap several benefits from implementing a savings plan. For one, employer contributions are tax-deductible. Thanks to a small employer tax credit, firms may also qualify for money for plan setup costs — up to \$1,500 for the first three years.

Retirement savings plans can also serve as a valuable recruiting and retention tool, according to Todd Heller, President of retirement plan design and administration provider Heller Pension Associates, which works with small- to mid-sized firms.

"Nowadays, that's one of the first questions candidates ask," says Heller, who is also an attorney. "Compensation is probably the most important, and health benefits are second. But the third is likely 401(k) and retirement benefits."

Before deciding to implement a firm-sponsored savings plan, however, firm owners should take these factors into consideration:

- **Who will be responsible?** As plan sponsor, the firm will have certain compliance regulation obligations, such as preparing an annual 5500 filing for the IRS.

If the firm decides to handle most of the plan management internally, a representative will need to be in charge of ongoing maintenance, including regulatory items, contribution calculations and other work.

- **Will the firm use an external service provider?** Firms may opt to outsource some or all of the plan's management. A company that provides a bundled plan structure, for example, might be contacted to perform all recordkeeping, investment and other services.

Firms can also choose multiple providers to handle the plan's design and administrative tasks as part of an unbundled investment platform. Because the fees can vary, confirm what each provider charges for maintenance, transactions and other services.

Boomer-age and other small law firm owners can reap several benefits from implementing a savings plan. For one, employer contributions are tax-deductible. Thanks to a small employer tax credit, firms may also qualify for money for plan setup costs — up to \$1,500 for the first three years.

- **Do firm members have significantly different saving needs?** Several retirement solutions are available for small businesses, ranging from a salary-reduction based SIMPLE IRA, which often involves less administrative paperwork, to a profit-sharing plan, in which employers can make large contributions for employees.

Determining the best type for your firm depends in part on how much key members — which the IRS defines as someone who makes more than \$175,000 a year, owns 5 percent of the business or more, or owns 1 percent

To provide affordable, effective options for all employees, firms may want to offer two plans.

and makes more than \$150,000 — want to contribute, according to Heller.

To provide affordable, effective options for all employees, firms may want to offer two plans.

For example, with a cash balance defined benefit plan and a 401(k) plan, owners could contribute significantly more than with a 401(k) alone — \$200,000 to \$300,000, Heller says, compared to \$53,000 (the limit in 2015). Most non-key employees, however, wouldn't likely need the ability to make such a sizeable contribution.

"Many defined benefit/cash balance plan sponsors will adopt 401(k) profit-sharing plans for one of two main reasons," Heller says. "[An] increase to the total deductible contributions, and testing the two plans together to reduce the contribution cost for non-key employees — which can often result in lowering them by over half."

- **Would getting your own individual plan be better?**

Although solo practitioners may think a personal IRA is their best bet if they only plan on contributing \$5,000 to \$6,000 a year, Heller advises considering other options.

"Often, if you have a firm that's doing well, the owner is going to want to put away substantially more than that to take advantage of the tax rules that apply to 401(k)s," he says. "You get an immediate reduction for contributions going into a plan, and tax-deferred growth while the funds are in the plan. The tax benefits are really what drives most of these decisions."

ON THE RETIREMENT HORIZON

In February 2016, President Obama included a proposition in the 2017 fiscal year budget to allow small businesses to collectively form multiple employer plans (MEP).



If the proposal advances (it's not passed as of press time), it could, Painter says, potentially reduce plan administrative work and expense.

"The thought process is it would be more cost efficient for small employers, because they wouldn't have to establish and run their own plan," she says. "In a traditional MEP environment, the plan still treats each employer separately for various things, like determination testing, so it puts a lot of burden on each individual employer. The [proposal] is really looking at it as one plan."

If the budget proposition doesn't become a reality, however, and a firm wants to establish a retirement savings plan, making it as uncomplicated as possible can help.

"Sometimes we see firms start out with a pretty simplistic plan design — a matching component, fit primarily to mutual funds or some type of asset allocation or other investment," Painter says. "They get it up and running before they start adding unique features like self-directed brokerage aspects."

A retirement plan, after all, doesn't have to be overly complex to encourage both firm owners and employees to start saving, but it does have to be in place.

"Statistics have proven employees who have access to workplace-sponsored plans are far more likely to have savings for retirement than those who don't," Heller says. "In addition, the owner is getting tax benefits for employee-based contributions — it's a win-win for everybody." ■

ABOUT THE AUTHOR

Erin Brereton is a legal industry marketing consultant and freelance journalist who has written about the legal industry, finance, business and other topics for more than 50 legal associations, magazines, websites and other publications.



breretonerin@gmail.com



www.chicagojournalist.com



twitter.com/erbrer09