

Consider a Retirement-Income Back-Up Plan Today

Clients with small businesses usually understand the importance of saving for retirement—but they may still be making a classic financial mistake. Take this opportunity to remind clients that now is a good time to prepare a retirement-income back-up plan.

How financially savvy are your clients? Most small-business owners are very familiar with the business side of financial literacy, as it is often one of the keys to their success. But sometimes the personal side of financial literacy takes a back seat, leaving gaps in personal-finance planning for both the business owners and their employees.

Small-business owners work hard to build and maintain their businesses. Unfortunately, the focus on building a business may cause the owner to lose sight of important personal-finance goals, including ensuring solid retirement savings plans for both the employees and employer. You can help encourage business-owning clients to think about this as having a “retirement-income back-up plan.”

Formal Retirement Plans Matter More Than Some Expect

Business owners may view their businesses as their retirement-income plans. This can work nicely for some, especially when a family-based business or outside purchase provides an asset base for retirement income, but it still carries risk. What if the business is difficult to transfer to a new owner? What if revenues are insufficient to support a sale of the business when retirement income is needed?

Creating formal retirement plans for both employees and employers can help small-business owners retire when they are ready. The business will not be the only resource available to create retirement income, helping to reduce the risk of not being able to sell when needed and to improve the client’s overall retirement preparedness.

¹“SEP Retirement Plans for Small Businesses.” DOL.gov. Accessed August 1, 2024.

²Internal Revenue Service. “SIMPLE IRA Plan.” IRS.gov. Accessed August 1, 2024.

Select a Plan That’s Easy to Understand

Business owners may be singularly focused on the success of their businesses. These clients may view taking the time to create a formal retirement plan and contributing to it as an unneeded expense in an already busy work schedule. But a formal retirement plan can help separate the owner’s personal retirement finances from business finances and act as a back-up income source available when the owner wants—or needs—to retire. While still important, the business is now one part of the client’s retirement assets, not the only one.

Several plans are available to small-business owners. However, the features and challenges of each one should be considered.

- **SEP-IRA.** Simplified Employee Pension (SEP) IRAs are employer-funded plans. In a SEP-IRA, the employer contributes funds to each employee’s account. The contributions may be regular or Roth, and they always are tax-deductible. These IRA-type plans are easy for a small business to administer. As SEP-IRAs are employer-only contributions, they tend to work best for very small employers.¹
- **SIMPLE IRA.** A SIMPLE IRA provides small employers a streamlined way to have both employee and employer contributions in a plan. Employees may choose to make salary-reduction contributions (similar to a 401(k)), and the employer is required to make either matching or nonelective contributions. As this also is a type of IRA, administration requirements are limited. Use is limited to employers with 100 or fewer employees. SIMPLE IRAs are well-suited to small businesses where the employer wants to encourage employee participation.²

Insurance products can be issued in all states, except New York, by Pacific Life Insurance Company and in all states by Pacific Life & Annuity Company. Product/material availability and features may vary by state.

**No bank guarantee • Not a deposit • May lose value
Not FDIC/NCUA insured • Not insured by any federal government agency**

- **401(k).** A 401(k) is a type of defined-contribution plan under the Employee Retirement Income Security Act (ERISA) of 1974. The plan allows employees to make salary-reduction contributions to traditional or designated Roth accounts (DRACs). While the employer may choose to make matching contributions, most small-business owners are required to make either matching or qualified non-elective contributions to assure that higher-income employees, including themselves, can participate. As an ERISA plan, a 401(k) has more complex administration requirements, including annual reporting and testing. Still, 401(k)s are very popular, as they allow for the highest maximum contribution and vesting of employer contributions. A high percentage of small businesses with 20 or more employees—especially those with higher-income employees—choose 401(k)s.

For more information on plan contributions limits, check the [2024 limits here](#).

Show Clients How to Create a Flexible Financial Cushion

As mentioned above, many business owners consider their businesses to be their sources of retirement income and assume that either a sale or transfer to the next generation will provide the assets needed to cover expenses during retirement. But what happens if a sudden health emergency forces the owner into retirement? What if the chosen inheritor proves to be a poor choice to steer the business forward? Life is full of unexpected turns, and it's important to encourage clients to plan for potential future risks.

Formal employer retirement plans allow your business-owning clients an additional asset base for retirement income. With the flexibility of a financial cushion, clients can then take time to transfer or liquidate their businesses, improving their chances of having enough income to last throughout their retirements.

ACTIONS YOU CAN TAKE RIGHT NOW

- **Identify clients with small businesses who do not currently have retirement plans.**
- **Review how a retirement-income back-up plan may empower their futures.**
- **Determine which plans might work and whether a protected lifetime-income strategy is appropriate.**

Additional Resources and Links

[Retirement Planning for Small Business Owners](#)

[Using Protected Lifetime Income as a Sunscreen for Longevity Risk](#)

[The Importance of Financial Literacy](#)

[Trending topics and Useful Strategies](#)

**For more information about retirement planning,
please contact our Retirement Strategies Group at
RSG@PacificLife.com or (800) 722-2333, ext. 3939.**

Annuities.PacificLife.com

This material is provided for informational purposes only and should not be construed as investment, tax, or legal advice. Information is based on current laws, which are subject to change at any time. Clients should consult with their accounting or tax professionals for guidance regarding their specific financial situations.

Pacific Life refers to Pacific Life Insurance Company and its subsidiary Pacific Life & Annuity Company. Insurance products can be issued in all states, except New York, by Pacific Life Insurance Company and in all states by Pacific Life & Annuity Company. Product/material availability and features may vary by state. Each insurance company is solely responsible for the financial obligations accruing under the products it issues.

The home office for Pacific Life & Annuity Company is located in Phoenix, Arizona. The home office for Pacific Life Insurance Company is located in Omaha, Nebraska.

3 of 3

VLQ3636BG-2400

24-333

This material is educational and intended for an audience with financial services knowledge.

8/24 E827



THE OFFICIAL SPONSOR
OF RETIREMENT*