

Payroll Deduction IRAs for Small Businesses



Payroll Deduction IRAs for Small Businesses is a joint project of the U.S. Department of Labor's Employee Benefits Security Administration (EBSA) and the Internal Revenue Service (IRS).

To view this and other EBSA publications, visit the agency's website at:

dol.gov/ebsa.

To order publications or request assistance from a benefits advisor, contact EBSA electronically at:

askebsa.dol.gov.

Or call toll free: **866-444-3272.**

This material will be made available in alternative format to persons with disabilities upon request.

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Want to help your employees save for retirement but don't want the responsibility of an employee benefit plan? Think about a payroll deduction IRA program.

A payroll deduction individual retirement account (IRA) is an easy way for businesses to give employees an opportunity to save for retirement. The employer sets up the payroll deduction IRA program with a bank, insurance company or other financial institution, and then the employees choose whether to participate and if so, how much they want deducted from their paychecks and deposited into the IRA. Employees may also have a choice of investments depending on the IRA provider.

Many people not covered by an employer retirement plan could save through an IRA, but do not do so on their own. A payroll deduction IRA at work can simplify the process and encourage employees to get started.

Under Federal law, individuals saving in a traditional IRA may be able to receive some tax advantages on the money they contribute, and the investments can grow tax-deferred. If the individual selects a Roth IRA, the contributions are after-tax and the investments grow tax-free.

Advantages of a payroll deduction IRA:

- The payroll deduction IRA is a simple way for employees to set up an IRA and save for their retirement.
- The employee makes all of the contributions. There are no employer contributions. By making regular payroll deductions, employees are able to contribute smaller amounts to their IRAs each pay period, rather than having to come up with a larger amount all at once.
- Administrative costs are low and there are no annual filings with the government.
- There is no requirement that an employer have a certain number of employees to set up a payroll deduction IRA.

- The program will not be considered an employer retirement plan subject to Federal requirements for reporting and fiduciary responsibilities as long as the employer keeps its involvement to a minimum.
- Providing a payroll deduction IRA for employees may assist an employer in attracting and retaining quality employees.

This booklet provides an overview of payroll deduction IRA programs and is not a legal interpretation.

ESTABLISHING A PAYROLL DEDUCTION IRA

A payroll deduction IRA program is easy to set up and operate.

The employer sets up the payroll deduction IRA program with a financial institution, such as a bank, mutual fund or insurance company. The employee establishes either a traditional or a Roth IRA (based on the employee's eligibility and personal choice) with the financial institution and authorizes the payroll deductions. The employer withholds the payroll deduction amounts that the employee has authorized and promptly transmits the funds to the financial institution. After doing so, the employee and the financial institution are responsible for the amounts contributed.

As long as the employer keeps its involvement to a minimum, the program will not be treated as an employer retirement plan under Federal law, and the employer will not be subject to the requirements for such plans, including annual filings with the government.

In setting up a program, the employer can limit the number of IRA providers to which it will remit contributions. The employer can designate as few as one IRA provider to receive contributions.

However, it must disclose any limitations or costs associated with an employee's ability to transfer contributions to another IRA provider before the employee begins to participate in the program.

The employer needs to remain neutral about the IRA provider. It cannot negotiate with an IRA provider to obtain special terms for its employees, exercise any influence over the investments made or permitted by the IRA provider, or receive any compensation in connection with the IRA program except reimbursement for the actual cost of forwarding the payroll deductions.

The employer can:

- ❑ Encourage its employees to save for retirement by providing general information about the payroll deduction IRA program and other educational materials that explain why it is important to save, including the advantages of contributing to an IRA;
- ❑ Answer employees' questions about the payroll deduction program and refer inquiries to the IRA provider; and
- ❑ Provide informational materials written by the IRA provider, as long as the materials do not suggest any endorsement by the employer.

However, the employer should make clear that its involvement in the program is limited to collecting employee contributions and promptly sending them to the IRA provider.

OPERATING A PAYROLL DEDUCTION IRA

Generally, any employee who performs services for the business (or "employer") can be eligible to participate. The decision to participate is up to the employee and an IRA may not be appropriate for all individuals. The employees should understand that they have the same opportunity to contribute to an IRA outside the payroll deduction program and that the employer is not providing any additional benefit to employees who participate.

Each employee determines the amount they want deducted for contribution to their IRA. Employees are always 100 percent vested in (have ownership in) all of the funds in their IRAs.

Participant loans are not permitted. Withdrawals are permitted anytime, but they are subject to income taxes (except for certain distributions from nondeductible IRAs and Roth IRAs). If the employee is under age 59^{1/2}, there may also be a 10 percent additional tax.

Employees' contributions are limited to \$5,500 for 2014 and 2015 (see irs.gov/retirement for annual updates). Additional "catch-up" contributions are permitted for employees age 50 or over. This special catch-up amount is limited to \$1,000 per year.

The employees control where their money is invested and they also bear the investment risk. The financial institution holding the IRA manages the funds. An employee may move the IRA assets from one IRA provider to another. The employee should be made aware that the employer does not guarantee or promise any rate of return. The employer is merely acting as a conduit.

The employer's costs are low because the program is not subject to the government filing,

administrative and fiduciary requirements imposed on employer retirement plans (such as 401(k) plans).

The employer may pay fees charged by the IRA provider for services in connection with establishing and operating the payroll deduction process. The employer may pay its own internal costs (such as bookkeeping and overhead) for setting up and operating the program. However, the employee must pay the fees related to setting up and maintaining the IRA.

TERMINATING A PAYROLL DEDUCTION IRA

A payroll deduction IRA program can be terminated at any time. If the employer decides that a payroll deduction IRA program no longer suits its business needs, it simply notifies the payroll department. The employer also should notify its employees that the program is being terminated. The employer may need to notify the IRA provider(s) that it will no longer be making deposits. No termination notice is required for the IRS. Although the employer's involvement will end, the employees can continue to save through their IRAs, working directly with the IRA provider.

RESOURCES

The U.S. Department of Labor's (DOL's) Employee Benefits Security Administration and the IRS feature this booklet and other information on retirement plans on their websites:

dol.gov/ebsa - Go to the Saving Matters website at **savingmatters.dol.gov** or "Publications and Reports" for additional information to help you understand and operate your payroll deduction IRA. This website also has information to help your employees understand the importance of saving for retirement.

irs.gov/retirement - Go to "Plan Sponsor" to find plain-language information that will help you maintain your payroll deduction IRA properly.

In addition, the following jointly developed publications are available on the DOL and IRS websites and can be ordered through the toll-free number listed below:

- ❑ *Choosing a Retirement Solution for Your Small Business*, Publication 3998, provides an overview of retirement options available to small businesses.
- ❑ *SEP Retirement Plans for Small Businesses*, Publication 4333, describes a low-cost retirement savings option for small businesses.
- ❑ *SIMPLE IRA Plans for Small Businesses*, Publication 4334, describes a type of retirement plan designed especially for small businesses.
- ❑ *Profit Sharing Plans for Small Businesses*, Publication 4806, describes a flexible option for businesses to help employees save for retirement.
- ❑ *401(k) Plans for Small Businesses*, Publication 4222, provides detailed information regarding the establishment and operation of a 401(k) plan.
- ❑ *Adding Automatic Enrollment to Your 401(k) Plan*, Publication 4721, explains how to add automatic enrollment to your existing 401(k) plan.
- ❑ *Automatic Enrollment 401(k) Plans for Small Businesses*, Publication 4674, explains a type of 401(k) plan that allows small businesses to increase plan participation.

For business owners with a plan:

- ❑ *Retirement Plan Correction Programs*, Publication 4224, provides a brief description of the IRS and DOL correction programs.

Order from:

DOL: Electronically at askebsa.dol.gov or by calling 866-444-3272

Related materials available from DOL:

DOL sponsors an interactive website – the Small Business Retirement Savings Advisor, available at dol.gov/elaws/pwbaplan.htm – that encourages small business owners to choose the appropriate retirement plan for their business and provides resources on maintaining plans.

For employees:

- Savings Fitness: A Guide to Your Money and Your Financial Future* (also in Spanish)
- Taking the Mystery Out of Retirement Planning* (also in Spanish)
- Top 10 Ways to Prepare for Retirement* (also in Spanish)
- Women and Retirement Savings* (also in Spanish)

To view these publications, go to dol.gov/ebsa and click on “Publications and Reports.” To order publications or request assistance from a benefits advisor, contact EBSA electronically at askebsa.dol.gov or by calling toll free **866-444-3272**.

Related materials available from the IRS

Publications:

- Choosing a Retirement Plan for Employees of Tax Exempt and Government Entities*, Publication 4484
- Individual Retirement Arrangements (IRAs)*, Publication 590
- Lots of Benefits*, Publication 4118 (also in Spanish, Vietnamese, Korean, Chinese and Russian)
- Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)*, Publication 560

To view these publications, go to irs.gov/retirement and click on “Forms & Publications” in the left pane.



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