BUSINESS

'Simple Plan' easy option for business retirement

By Fred T. Snyder
Special to Sentinel-Voice

If you are self-employed or the owner of a closely-held company, you understand the importance of planning the most effective use of your business assets. While you can use extra business cash to increase everyone's salary, a long-term investment might be a more efficient choice.

Because saving for a secure retirement is a top priority for many of us, a relatively new tax-deferred savings retirement option might be a better idea for you and your employees.

The Small Business Job Protection Act of 1996 created a new type of retirement plan for smaller businesses called the Savings Incentive Match Plan for Employees (SIMPLE). The Simple Retirement Program is specifically designed to provide employers a cost effective and simple way to offer retirement benefits to employees. Understanding the ins and outs of the Simple Plan can help you determine whether this retirement plan may be right for your company.

• Eligibility, sole proprietorships, partnerships, corporations, government entities and nonprofit or tax-exempt organizations may establish a Simple Plan. The retirement plan is available to employers with up to 100 employees, provided that the business does not currently maintain any other employer-sponsored retirement plans during the calendar year the Simple Plan is in effect. All employees who have earned at least $5,000 in compensation in any preceding two calendar years are eligible to participate.

Financial Report

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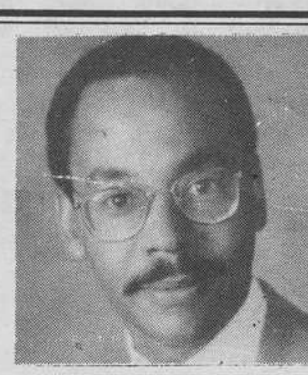

• Plan structure. The Simple Plan can be structured as either an IRA plan, where each employee has his/her own self-directed IRA account, or as a 401(k) plan. If the Simple Plan is maintained in the 401(k) form, certain features of a traditional 401(k) may apply. In general, the Simple Plan may be easier to administer but less flexible than other qualified plans.

• Contributions. Generally, participating employees can contribute up to $6,000 annually (adjusted periodically for inflation). There are no percentage limitations in a Simple-IRA, so whether employees earn $10,000 or $100,000, they will have the same $6,000 salary deferral limit. Under the Simple-IRA Plan, the employer must also make a contribution. The employer may choose before each plan year which of the following contribution formulas to use.

1) Generally, a dollar-for-dollar matching contribution up to 3 percent of an employee's compensation or a lower matching contribution (not less than 1 percent) but not more than two out of any five years; or

2) a non-matching contribution of 2 percent of compensation for each eligible employee, based on $160,000 maximum compensation (adjusted periodically for inflation).

As with many other retirement plans, taxes are due on any withdrawals before age 50-1/2 and two years of participation may be subject to a 25 percent IRA penalty.

Business owners can also choose from a number of plan types in addition to Simple Plans, ranging from sep-IRAs, profit sharing, money purchase, 401(k) and defined benefit plans. These alternatives can help you select the most appropriate and cost-effective plan that can ultimately benefit your employees, your business and you.

This article was provided by A. G. Edwards & Sons, Inc., member SIPC, Fred T. Snyder/investment broker.

Expanding your business: Buying existing ones practical

By Pierre A. Clark
Special to the NNPA

For every high-flying, successful company generating six-figure and seven-figure yearly incomes and earning double-digit after-tax profit margins, there are 10 that crash, burn and fail, according to statistics. And for every successful company generating double-digit profits there are 10 marginal performers.

Whether firms are undercapitalized, poorly managed or promoted, or just not ready for prime time, the fact is that the vast majority of businesses in America are candidates for either one of three outcomes: Closure, bankruptcy or acquisition.

Each of these outcomes mean an excellent opportunity for you to grow your business by acquiring the tangible and intangible assets of these firms. If you are a skilled manager, recruiter and promoter and are willing to develop an eye for the tangible / intangible potential of firms whose product lines and assets complement yours, acquiring and combining existing firms can put you on the fast-growth track.

There are three types of acquisition candidates: Money losers. The firms that have never earned more than they cost to operate may nevertheless own extremely valuable assets like land, furniture, equipment, formulas, patents, software code or other assets.

Barely profitable. The firms that are making a small profit will have assets that under more creative and efficient management could perform more profitably through cost reductions or more effective marketing strategies.

Profitable but with greater potential. Even profitable companies can be operated more efficiently. Or their owners may want to sell out and cash in on the years of work expended in building their businesses.

Through acquiring these kinds of companies, you can build your small firm into a giant that generates profits through lower-unit-cost materials and what economists call economies of scale.

Growth through acquisition is the process that drove the creation of Century 21, Blockbuster Video, ERA Realty and Waste Management - WMX Technologies. They are all companies built by acquiring smaller companies in fragmented, inefficiently-operated industries and capturing a major portion of the market.

Their founders recognized the acquisition process as being much more efficient than growing a business from scratch and spending advertising and promotional dollars to build market share.

For every successful company generating double-digit profits there are 10 marginal performers.

Acquisition candidates can supply three kinds of assets: new/nearly new/used equipment or furniture; production rights/patents or schematics to new products; physical and financial assets like real estate, stocks, bonds, contracts or promissory notes and intangible assets like mailing lists/tradenames/losses or goodwill generated from the business.

Most companies you will be interested in acquiring will be privately owned and not required to publish their revenue and earnings numbers or other information. You'll need to follow business newspapers like Barron's or the Wall Street Journal, or industry magazines or newsletters for revenue or sales information about the companies you're interested in.

States like Illinois publish directories of manufacturing and services firms that list officers, key staff members, estimated sales, major clients and other details. Brochures and sales materials are also valuable information sources, as are the firms' owners.

Other information sources include (a) lawyers and accountants who deal with wealthy business owners, (b) business brokers or investment firms that finance and sell businesses and (c) word of mouth.

The business performance numbers — capital requirements, staffing levels, labor costs, marketing strategies, materials suppliers — are what you'll use to evaluate potential candidates.

The best acquisition candidates are businesses in a profitable, but fragmented market niche—a business with a two to four percent market share. Examples of these types of industries include trucking and delivery and cleaning/ cleanup services.

You can employ a variety of financing techniques in your acquisition efforts.

They include: leveraged buyout - using the company's assets to finance its purchase. Leveraged buyouts work when there are underperforming hidden assets in a company - real estate, stocks or bonds, a large cash reserve, or tax losses that can be credited against future income.

Many large firms in the 1980s were built on leveraged buyouts, including TLC Beatrice Holdings, the nation's largest African-American firm.

Outright purchase of smaller firms. The typical millionaire business owner, 54 years old with most of his net worth tied up in the stock ownership of the firm, may be ready to cash out of an enterprise with excellent cash and earnings generation prospects because he wants to enjoy his cash, retire or avoid potentially heavy estate taxes.

Stock exchange. You can swap stock in your firm for the assets of another firm. The disadvantage here is that you dilute your ownership position. The advantage is that the deal is a no-cash transaction.

If you are a good manager with a keen understanding of your industry and have an eye for value, acquiring other firms may be the economic opportunity you've been waiting for.

Pierre A. Clark is a nationally known self-employment expert and entrepreneurship columnist.