Everything you need to know about: Employee retirement plans

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Retirement plans are now seen as a must in the modern workplace. They and are decisive to attract the top talent. Retirement benefits serve to provide replacement income for qualified retirees and their families. Understandably due to the perceived complexity of retirement plans, small business owners are sometimes hesitant to offer them. Retirement plans and the relevant benefits come in many forms and may require a significant time investment to find the right fit. This article will seek to look at what are employee retirement plans and some variations that come within them.

Retirement planning is defined as the process of determining retirement income goals and the actions and decisions necessary to achieve those goals. Retirement planning includes identifying sources of income, estimating expenses, implementing a savings program, and managing assets and risk. Future cash flows are estimated to determine if the retirement income goal will be achieved. Retirement plans are of course subject to the jurisdiction and local labour laws.

The importance of routinely setting aside savings makes the retirement planning one of the most valuable long-term benefits that employers can offer their employees. An employer-provided retirement plan can be an easy, automatic way for employees to save money for retirement from each of their paychecks. Most fiscal regulations actively encourage employer-sponsored retirement through incentives such as tax breaks.

Some of the aspects that have to be handled in a retirement plan include:

- A detailed document that describes the benefit structure and guides day-to-day operations;
- A fund to hold the retirement plan's assets;
- A record-keeping system to track the flow of funds going to and from the retirement plan; and
- Documents to provide plan information to employees participating in the plan and to the government.

Traditional Retirement Plans

Traditionally there have been two types of post-retirement plans that were used to reward employees for their long service to an organization. Defined contribution plans and defined benefit plans.

Defined benefit plans

A defined-benefit plan is an employer-sponsored retirement plan where employee benefits are computed using a formula that considers several factors, such as length of employment and salary history.? The company is responsible for managing the

plan's investments and risk with limited exposure to the employee. A study done by the Organisation for Economic Co-operation and Development (2019) found of the global index of companies found that defined benefit pension plans appear to have the most financial implications for companies domiciled in Western Europe, the United States and Canada, Brazil and Japan.

A defined-benefit plan specifies the amount an employee would be paid from the day they retired until death. Funds are paid to a trustee following actuarial projections based on factors such as mortality rates, employee turnover, average salary, etc. These plans are typically high cost because the payout formula is mainly based on years of service. The longer an employee stays with the organization the higher the pension when they retired.

The indicative characteristics of the defined benefit scheme include:

- The employer is responsible for providing fixed benefits to the employee
- The entire liability rests with the firm
- The exact amount of future pension liability is unknown
- The firm can benefit from any additional income that the pension plan produces

The characteristics of the defined benefit plans seem prohibitive for relatively small firms as they are contractually bound into providing these fixed benefits despite fluctuations in the business environment.

Defined contribution plans

Unlike defined benefit plans, defined contribution plans don't have a specified monthly or yearly amount for employees to receive. Instead, both the employee and the employer can contribute to these types of plans. Money is usually invested on behalf of the employee, and the employee will receive access to the funds in retirement. A set amount paid into a fund regularly by employers, and often employees, and no promise is given concerning an end amount the employee would have for retirement. Ideally, a trustee administers the plan and contributions are invested according to the contributors' risk tolerance. This type of plan ideally does not have an undue burden on the company and the payments formed part of the remuneration package. As the employer has no obligation toward the account's performance after the funds are deposited, these plans require little work, are low risk to the employer, and cost less to administer.

The indicative characteristics of the defined contribution scheme include:

- The employer's sole responsibility, in the beginning, is to match the employees' personal contributions
- The risk lies with the employee
- Has elements of flexibility

Choosing the retirement plan that's right for you

Businesses come in all sizes and operate in different jurisdictions so there is no one size fits all for employee retirement planning. Some of the steps to establishing a retirement plan are;

- Reviewing the different plan options and determine what is ideal for your business. You'll want to research your options carefully and select a plan that makes the most sense from a tax perspective, both for you as an employer and for your employees.
- Creating a written plan, arranging fund transfers, notifying your employees of their options and develop a recordkeeping system to keep track of everything.
- Aiming to follow best practices to keep employee money growing while staying compliant with your plan's terms. In this step, you'll make contributions, stay up-to-date on retirement plan laws, manage plan assets and distribute benefits.
- An important part of a good retirement plan is constantly auditing and adjusting where necessary. If your plan is no longer working for your employees and business, choose and implement a new one.

Finding the right retirement plan can undoubtedly be a challenge. The risks for both employer and employee are adequate to see given the recent recession from the coronavirus. However, the modern workplace evolved in such a way that places a high value on retirement planning. With consideration to risk appetite and affordability, even small firms can be able to provide relatively competitive retirement benefits for employees.

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