COMPLIANCE OVERVIEW

Provided by:
BeaconPath, Inc.

This Compliance Overview is not intended to be exhaustive nor should any discussion or opinions be construed as legal advice. Readers should contact legal counsel for legal advice.

Choose a Retirement Plan – Plan Type Comparison Chart

HIGHLIGHTS

- Most private-sector retirement plans are either individual retirement arrangements (IRAs), defined contribution plans (for example, 401(k) plans) or defined benefit plans
- Many retirement plans provide tax savings to both employers and employees, while also helping employees save money for retirement.
- Employers should work with their advisors to select the type of retirement plan that is the best fit for their business and employees.

Experts estimate that in the American workforce as a whole, workers will need 70 to 90 percent of their pre-retirement income to maintain their current standard of living when they stop working. Lower income earners may need more than 90 percent. Among workers 25-64 years of age, a little more than half are participants in an employer-sponsored retirement plan.

By starting a retirement savings plan, you will help your employees save for the future, and you will help secure your own retirement. Offering a retirement plan may also help you attract and retain better qualified employees. Tax advantages have made it more appealing than ever to establish and contribute to a retirement plan. These tax advantages may include the following, depending on the type of retirement plan selected:

- Employer contributions are deductible from the employer's income;
- Employee contributions (other than Roth contributions) are not taxed until distributed to the employee; and
- Money in the plan grows tax-deferred.

LINKS AND RESOURCES

- Benefits of Setting Up a Retirement Plan (an IRS resource)
- IRS' frequently asked questions (FAQs) on retirement plans
- IRS' webpage on choosing a retirement plan for your business (with links to various related resources)
- Coronavirus-related relief for retirement plans (IRS questions and answers)

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	Payroll Deduction IRA	SEP	Simple IRA Plan	401(k)	403(b)	457(b)	Defined Benefit
Key Advantage	Easy to set up and maintain.	Easy to set up and maintain.	Salary reduction plan with little administrative paperwork.	Permits high level of salary deferrals by employees. May include designated Roth program.	Permits high level of salary deferrals by employees. May include designated Roth program.	Permits high level of salary deferrals by employees. **Governmental:** May include designated Roth program.	Provides a fixed pre-established benefit for employees.
Sponsor or Eligible Employer	Any employer	Any employer	Employers with 100 or fewer employees that do not currently maintain another plan	Any non-government employer	Public education employers 501(c)(3) organizations	State and local governments	Any employer
Employer's Role	Arrange for employees to make payroll deduction contributions. Transmit contributions for employees to IRA. No annual filing requirement.	Set up plan — employer may use Form 5305-SEP. Transmit contributions for employees to SEP-IRA. Generally, no annual filing requirement. Bank or financial institution handles most of	Set up plan—employer may use Form 5304-SIMPLE or Form 5305-SIMPLE. Transmit contributions for employees to SIMPLE IRA. No annual filing requirement Bank or financial institution handles most of	Arrange for employees to make elective deferral contributions and transmit contributions. Must annually file Form 5500 (unless government entity). May require annual nondiscrimination	Arrange for employees to make elective deferral contributions and transmit contributions. May require Form 5500 filing if employer contributions are made (unless government entity).	Arrange for employees to make salary reduction contributions. No model form to establish this plan.	Must annually file Form 5500 (unless government entity). An actuary must determine annual contributions. No model form to establish this plan.

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		the paperwork.	the paperwork.	testing to ensure plan doesn't discriminate in favor of highly compensated employees. No model form to establish this plan.	No model form to establish this plan.		
Plan Contributions	Employee can decide how much to contribute.	Employer can decide whether to make contributions year-to-year. Only employer contributes.	Employee can decide how much to contribute. Employer must make matching contributions or contribute 2% of each eligible employee's compensation.	Employee elective deferral contributions. Employer contributions are permissible but not required.	Employee elective deferral contributions. Employer contributions are permissible but not required.	Employee elective deferral contributions. Employer contributions are permissible but not required.	Primarily funded by employer.
Maximum Annual Contribution (per participant)	Employee: $6,000 for 2021.	Up to 25% of compensation, but no more than $58,000 for 2021.	Employee: $13,500 for 2021. Employer: either match employee contributions 100% of first 3% of compensation (can be reduced to as low as 1% in	Employee Elective Deferrals: $19,500 for 2021. Employer & Employee: lesser of $58,000 (2021) or 100% of compensation, subject to	Employee Elective Deferrals: $19,500 for 2021. Employer & employee: lesser of $58,000 (2021)	Employer & Employee: $19,500 for 2021. **Governmental:** Age 50 or Over — additional salary reduction contribution:	Actuarially determined contribution. Plan benefits are subject to nondiscrimination testing.

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			any 2 of 5 years); or contribute 2% of each eligible employee's compensation.	nondiscrimination testing.	or 100% of includible compensation. Age 50 or Over - additional elective deferrals: $6,500 for 2021.	$6,500 for 2021.	
Catch-up Contributions	Age 50 or over – additional employee contribution of $1,000 for 2021.	N/A	Age 50 or Over — additional employee contribution: $3,000 for 2021.	Age 50 or Over — additional elective deferrals: $6,500 for 2021.	Special 403(b) Catch-up: selected employers; employee must have 15 years of service; limited to least of: 1) $3,000; 2) $15,000 less previously excluded special catch-ups; and 3) $5,000 multiplied by years of service minus previously excluded	Special 457 Catch-up: 3 years prior to the year of normal retirement age; limited to lesser of: 1) $39,000 (twice the basic annual limit) for 2021; or 2) The basic annual limit plus underutilized basic annual limit in prior years (only allowed if not utilizing the age 50 or over catch-up).	N/A

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					deferrals.		
Minimum Employee Coverage Requirement	Should be made available to all employees.	Must be offered to all employees who are at least 21 years of age, employed by the employer for 3 of the last 5 years, and had compensation of at least $650 for 2021.	Must be offered to all employees who have compensation of at least $5,000 in any prior 2 years and are reasonably expected to earn at least $5,000 in the current year.	Must pass minimum coverage test.	Employee Elective Deferral Contributions: all eligible employees may elect to have a contribution of more than $200 by salary reduction. Other Contributions: must pass minimum coverage test (except government entities).	Does not need to pass a minimum coverage test. **Governmental:** common-law employees, independent contractors. **Tax-exempt Organizations:** selected group of management or highly compensated employees, independent contractors.	Must pass minimum coverage test.
Withdrawals, Loans and Distributions	Withdrawals permitted at any time, subject to federal income taxes. Subject to 10% additional tax if before age 59½. Must start	Withdrawals permitted at any time subject to federal income taxes. Subject to 10% additional tax if before age 59½. Must start	Withdrawals permitted any time subject to federal income taxes. Subject to 10% additional tax if before age 59½ (25% if less than 2	Withdrawals permitted after a distributable event occurs (e.g., retirement, death, disability, severance from employment). Must start	Withdrawals permitted after a distributable event occurs (e.g., retirement, death, disability, severance from	Withdrawals permitted after severance from employment. Must start receiving distributions by April 1 following the later of year	Payment of benefits after a distributable event occurs (e.g., retirement, death, disability, severance from employment). Must start

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	receiving distributions by April 1 of the year following attainment of age 70½* (special rule applies to Roth IRAs). Loans are not permitted from IRAs.	receiving distributions by April 1 of the year following attainment of age 70½.* Loans are not permitted from SEP-IRAs.	years of participation). Must start receiving distributions by April 1 of the year following attainment of age 70½.* Loans are not permitted from Simple IRA plans.	receiving distributions by April 1 following the later of year of retirement or attainment of age 70½.* Plan may permit loans and hardship withdrawals. Early withdrawals subject to 10% additional tax.	employment). Must start receiving distributions by April 1 following the later of year of retirement or attainment of age 70½.* Plan may permit loans and hardship withdrawals. Early withdrawals subject to 10% additional tax.	of retirement or attainment of age 70½.* **Governmental:** plan may permit loans/distribution for unforeseen emergency or small inactive accounts. **Tax-exempt Organizations:** plan may not permit loans; special rules apply to independent contractors.	receiving distributions by April 1 following the later of year of retirement or attainment of age 70½.* Loans permitted. Early withdrawals subject to 10% additional tax.
Rollovers and Transfers	Rollovers permitted from IRA to another and to an eligible retirement plan (special rules apply to Roth IRAs).	Rollovers permitted from IRA to another and to an eligible retirement plan.	Rollovers permitted from one SIMPLE IRA to another SIMPLE IRA any time. However, a rollover from a SIMPLE IRA to a non-SIMPLE IRA or to an eligible	Rollovers permitted to an eligible retirement plan or IRA.	Rollovers permitted to an eligible retirement plan. Transfers permitted from one 403(b) to another 403(b). Purchase permissive service	**Governmental:** Rollovers permitted to an eligible retirement plan. Transfers permitted from one government 457(b) to another government	Generally, participant's benefit can be rolled over to another qualified plan that accepts rollovers or an IRA.

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			retirement plan can be made tax-free only after a two-year participation in the SIMPLE IRA plan.		(government plans).	457(b). Purchase permissive service. **Tax-exempt Organizations:** No rollovers permitted. Post-severance transfers permitted from one tax-exempt 457(b) to another tax-exempt 457(b).	
Vesting	Contributions are immediately 100% vested.	Contributions are immediately 100% vested.	Employer and employee contributions are immediately 100% vested.	Employee elective deferral contributions are immediately 100% vested. Employer contributions may vest over time according to plan terms.	Employee elective deferral contributions are immediately 100% vested. Employer contributions may, in limited circumstances, vest over time according to plan terms.	**Governmental:** Employee salary reduction contributions are immediately 100% vested. Employer contributions may vest over time according to plan terms. **Tax-exempt**	May vest over time according to plan terms.

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						Organizations: Employee and employer contributions must be subject to claims of creditors.	

* *Effective for individuals who reach age 70½ after Dec. 31, 2019, the age limit for required minimum distributions is increased to age 72.*

Source: Internal Revenue Service Publication 4484