# **Wealth Planning Made Easy**

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# Employer Retirement Plans



# **Employer Retirement Plans**

As an employer, you may want to establish one or more retirement plans for yourself or your employees. This chart highlights some of the common types of retirement plans available to you. Choosing the right one for your situation is a critical decision. (The numbers shown are for the 2020 tax year.)

# **QUALIFIED EMPLOYER PLANS**

- Code Section 401(a) rules apply<sup>1</sup>
- ERISA applies (except governmental, church, and employer-only plans)
- Can be adopted by most employers<sup>2</sup>
- · Participant loans may be available
- Immediate or deferred vesting [except SIMPLE/Safe-Harbor 401(k)s]
- Highest level of protection from creditors (ERISA plans)

#### **DEFINED CONTRIBUTION PLANS**

- Separate employee accounts
- Employee bears investment risk
- · Investments may be employee directed
- · Not insured by PBGC

#### **Employee Stock Ownership Plans**

Participant accounts invested primarily in employer stock

#### **Money Purchase Pension Plans**

- Required annual employer contributions
- Joint survivor rules apply

#### Types:

**Traditional Money Purchase**—fixed contribution, typically percentage of pay

Target Benefit Plan—Fixed contribution is amount actuarially determined to fund projected retirement benefit, but actual benefit based solely on account halance

#### **DEFINED BENEFIT PLANS**

- Funding rules apply: actuary generally required
- · Joint and survivor annuity rules apply
- · PBGC premiums may be required
- · Employer bears investment risk

#### **Traditional Defined Benefit Plans**

Guarantees a specific benefit at retirement, typically based on age, years of service, and pay

# Cash Balance Plans

Benefit is based on hypothetical account balance

# 412(i) Plans

- Like traditional defined benefit plan but financed exclusively with life insurance and annuity contracts
- Exempt from funding rules

# **Profit-Sharing Plans**

- Discretionary annual employer contributions
- Joint and survivor rules may be avoided

#### Types:

# Traditional Profit-Sharing Plans

 Discretionary employer contribution to 25% of pay Cross-Tested Plans (tested under defined benefit nondiscrimination rules)

## Age-weighted Plans

- Contributions based on age and compensation New Comparability Plans
- Employees grouped into classes based on age/position/other factors

### 401(k) Plans (salary deferral plans)

# Traditional 401(k) Plans

- Maximum deferral/catch-up \$19.500/\$6.500
- Additional PS contribution allowed
- Annual discrimination testing

# $\underline{Individual\ or\ Employer-only\ 401(k)\ \ Plans}$

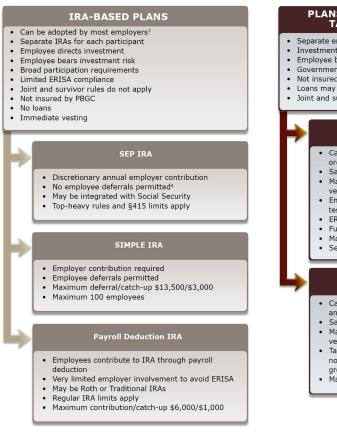
- Covers only business owners (and spouse)
- Like traditional 401(k) but ERISA doesn't apply Safe-Harbor 401(k) Plans

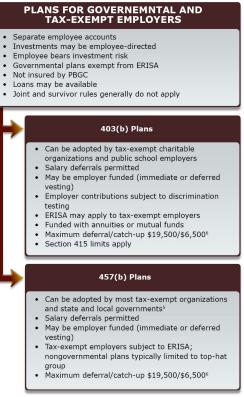
#### Like traditional 401(k) but mandatory employer contribution (fully vested)

- No testing for deferrals/employer mandatory
- contribution
- Special top-heavy rules

## SIMPLE 401(k) Plans

- Maximum deferral/catch-up \$13,500/\$3,000
- Mandatory employer contribution (fully vested)
- No discrimination testing
- Maximum 100 employees
- Top-heavy rules do not apply





- 1. Minimum coverage, vesting, discrimination, deduction, Social Security integration, section 415 limits, top-heavy rules, and other rules may apply. State and local government plans are exempt from many section 401(a) requirements. Special rules may apply to certain church plans, tax-exempt organizations, and collectively bargained plans.
- 2. Governmental entities may not adopt a 401(k) plan. Employer with more than 100 employees (ignoring employees earning less than \$5,000) may not adopt a SIMPLE 401(k) plan.
- 3. Employer with more than 100 employees (ignoring employees earning less than \$5,000) may not adopt a SIMPLE IRA plan.
- 4. For plans adopted after 1996.
- 5. May not be adopted by churches or church-controlled organizations.
- 6. Special catch-up limits may apply. Age 50 \$6,500 catch-up limit does not apply to nongovernmental 457(b) plans.

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