CHOOSING A RETIREMENT SOLUTION
FOR YOUR SMALL BUSINESS

Choosing a Retirement Solution for Your Small Business is a joint project of the U.S. Department of Labor's Employee Benefits Security Administration (EBSA) and the Internal Revenue Service.

To view this and other EBSA publications, visit the agency's **website.**

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This booklet constitutes a small entity compliance guide for purposes of the Small Business Regulatory Enforcement Fairness Act of 1996. It does not constitute legal, accounting, or other professional advice.

Starting a retirement savings plan can be easier than most business owners think. What's more, there are many retirement programs that provide tax advantages to both employers and employees.

Why Save?

Experts estimate that Americans will need 70 to 90 percent of their preretirement income to maintain their current standard of living when they stop working. Now is the time for you and your employees to start planning for retirement. As an employer, you have an important role in helping America's workers save.

By starting a retirement savings plan, you will help your employees save for their future. Retirement plans may also help you attract and retain qualified employees, and they offer tax savings to your business. You will help secure your own retirement as well. You can establish a plan even if you are self-employed.

Any Tax Advantages?

A retirement plan has significant tax advantages:

- Employer contributions are deductible from the employer's income,
- Employee contributions (other than Roth contributions) are not taxed until distributed to the employee,
- Money in the plan grows tax-free, and
- Distributions may be eligible for tax-favored rollovers or transfers into other retirement programs.

Any Other Incentives?

It's easy to establish a retirement plan that benefits you, your business and your employees, and there are additional incentives for having a plan:

- High contribution limits so you and your employees can set aside large amounts for retirement;
- "Catch-up" rules that allow employees age 50 and over to set aside additional contributions. The "catch up" amount varies, depending on the type of plan;
- A tax credit for small employers that enables them to claim a credit for part of the ordinary and necessary costs of starting a SEP, SIMPLE, or certain other types of retirement plans (more on these later);
- A tax credit for certain low- and moderate-income individuals (including self-employed) who make contributions to their plans ("Saver's Credit"). The amount of the credit is based on the contributions participants make and their credit rate. The maximum contribution eligible for the credit is $2,000. The credit rate can be as low as 10 percent or as high as 50 percent, depending on the participant's adjusted gross income; and
- A Roth program that can be added to a 401(k) plan to allow participants to make after-tax contributions into separate accounts, providing an additional way to save for retirement. Distributions upon death or disability or after age 59 ½ from Roth accounts held for 5 years, including earnings, are generally tax-free.

A Few Retirement Facts

Most private-sector retirement vehicles are either Individual Retirement Arrangements (IRAs), defined contribution plans, or defined benefit plans.

People tend to think of an IRA as something that individuals establish on their own, **but** an employer can help its employees set up and fund their IRAs. With an IRA, the amount that an individual receives at retirement depends on the funding of the IRA and the earnings (or losses) on those funds.

Defined contribution plans are employer-established plans that do not promise a specific benefit at retirement. Instead, employees or their employer (or both) contribute to employees' individual accounts under the plan, sometimes at a set rate (such as 5 percent of salary annually). At retirement, an employee receives the accumulated contributions plus earnings (or minus losses) on the invested contributions.

Defined benefit plans, on the other hand, promise a specified benefit at retirement, for example, $1,000 a month. The amount of the benefit is often based on a set percentage of pay multiplied by the number of years the employee worked for the employer offering the plan. Employer contributions must be sufficient to fund promised benefits.

Small businesses may choose to offer IRAs, defined contribution plans, or defined benefit plans. Many financial institutions and retirement plan practitioners make available one or more of these retirement plans that have been pre-approved by the IRS.

On the following two pages you will find a chart outlining the advantages of each of the most popular types of IRA-based and defined contribution plans and an overview of a defined benefit plan.

The Setting Every Community Up for Retirement Enhancement (SECURE) 2.0 Act, signed into law December 29, 2022, amends ERISA regarding retirement plans. This publication has not yet been updated to reflect the SECURE 2.0 Act changes. For updates on the law, visit **dol.gov/ebsa**.

	IRA-BASED PLANS			DEFINED CONTRIBUTION PLANS				DEFINED BENEFIT PLANS
	Payroll Deduction IRA	**SEP**	**SIMPLE IRA Plan**	**Profit Sharing**	**Safe Harbor 401(k)**	**Automatic Enrollment 401(k)**	**Traditional 401(k)**	
Key Advantage	Easy to set up and maintain.	Easy to set up and maintain.	Salary reduction plan with little administrative paperwork.	Permits employer to make large contributions for employees.	Permits high level of salary deferrals by employees without annual nondiscrimination testing.	Provides high level of participation and permits high level of salary deferrals by employees. Affords safe harbor relief for default investments.	Permits high level of salary deferrals by employees.	Provides a fixed, pre-established benefit for employees.
Employer Eligibility	Any employer with one or more employees.	Any employer with one or more employees.	Any employer with 100 or fewer employees that does not currently maintain another retirement plan.	Any employer with one or more employees.	Any employer with one or more employees.	Any employer with one or more employees.	Any employer with one or more employees.	Any employer with one or more employees.
Employer's Role	Arrange for employees to make payroll deduction contributions. Transmit contributions for employees to IRA. No annual filing requirement for employer.	May use IRS Form 5305-SEP to set up the plan. No annual filing requirement for employer.	May use IRS Form 5304-SIMPLE or 5305-SIMPLE to set up the plan. No annual filing requirement for employer. Bank or financial institution handles most of the paperwork.	No model form to establish this plan. May need advice from a financial institution or employee benefit adviser. Must file annual Form 5500.	No model form to establish this plan. May need advice from a financial institution or employee benefit adviser. A minimum amount of employer contributions is required. Must file annual Form 5500.	No model form to establish this plan. May need advice from a financial institution or employee benefit adviser. May require annual nondiscrimination testing to ensure that plan does not discriminate in favor of highly compensated employees. Must file annual Form 5500.	No model form to establish this plan. May need advice from a financial institution or employee benefit adviser. Requires annual nondiscrimination testing to ensure that plan does not discriminate in favor of highly compensated employees. Must file annual Form 5500.	No model form to establish this plan. Advice from a financial institution or employee benefit adviser would be necessary. Must file annual Form 5500. An actuary must determine annual contributions.
Contributors To The Plan	Employee contributions remitted through payroll deduction.	Employer contributions only.	Employee salary reduction contributions and employer contributions.	Annual employer contribution is discretionary.	Employee salary reduction contributions and employer contributions.	Employee salary reduction contributions and maybe employer contributions.	Employee salary reduction contributions and maybe employer contributions.	Primarily funded by employer.
Maximum Annual Contribution (per participant) *See the IRS's website for annual updates*	$6,500 for 2023 and $7,000 for 2024. Participants age 50 or over can make additional contributions up to $1,000.	Up to 25% of compensation[1] but no more than $66,000 for 2023 and $69,000 for 2024.	**Employee:** $15,500 in 2023 and $16,000 in 2024. Participants age 50 or over can make additional contributions up to $3,500 in 2023 and in 2024. **Employer:** Either match employee contributions 100% of first 3% of compensation (can be reduced to as low as 1% in any 2 out of 5 yrs.); or contribute 2% of each eligible employee's compensation.[2]	Up to the lesser of 100% of compensation[1] or $66,000 for 2023 and $69,000 for 2024. Employer can deduct amounts that do not exceed 25% of aggregate compensation for all participants.	**Employee:** $22,500 in 2023 and $23,000 in 2024. Participants age 50 or over can make additional contributions up to $7,500 in 2023 and in 2024. **Employer/Employee Combined:** Up to the lesser of 100% of compensation[1] or $66,000 for 2023 and $69,000 for 2024. Employer can deduct (1) amounts that do not exceed 25% of aggregate compensation for all participants and (2) all salary reduction contributions.	**Employee:** $22,500 in 2023 and $23,000 in 2024. Participants age 50 or over can make additional contributions up to $7,500 in 2023 and in 2024. **Employer/Employee Combined:** Up to the lesser of 100% of compensation[1] or $66,000 for 2023 and $69,000 for 2024. Employer can deduct (1) amounts that do not exceed 25% of aggregate compensation for all participants and (2) all salary reduction contributions.	**Employee:** $22,500 in 2023 and $23,000 in 2024. Participants age 50 or over can make additional contributions up to $7,500 in 2023 and in 2024. **Employer/Employee Combined**: Up to the lesser of 100% of compensation[1] or $66,000 for 2023 and $69,000 for 2024. Employer can deduct (1) amounts that do not exceed 25% of aggregate compensation for all participants and (2) all salary reduction contributions.	Annually determined contribution.
Contributor's Options	Employee can decide how much to contribute at any time.	Employer can decide whether to make contributions year-to-year.	Employee can decide how much to contribute. Employer must make matching contributions or contribute 2% of each employee's compensation.	Employer makes contribution as set by plan terms.	Employee can decide how much to contribute based on a salary reduction agreement. The employer must make either specified matching contributions or a 3% contribution to all participants.	Employees, unless they opt otherwise, must make salary reduction contributions specified by the employer. The employer can make additional contributions, including matching contributions as set by plan terms.	Employee can decide how much to contribute based on a salary reduction agreement. The employer can make additional contributions, including matching contributions as set by plan terms.	Employer generally required to make contribution as set by plan terms.
Minimum Employee Coverage Requirements	There is no requirement. Can be made available to any employee.	Must be offered to all employees who are at least 21 years old, employed by the employer for 3 of the last 5 years and had compensation of $750 for 2023 and for 2024.	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.	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.
Withdrawals, Loans & Payments	Withdrawals permitted anytime subject to federal income taxes; early withdrawals subject to an additional tax (special rules apply to Roth IRAs). Participant loans are not permitted.	Withdrawals permitted anytime subject to federal income taxes; early withdrawals subject to an additional tax. Participants cannot take loans from their SEP–IRAs.	Withdrawals permitted anytime subject to federal income taxes; early withdrawals subject to an additional tax. Participants cannot take loans from their SIMPLE IRAs.	Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.) subject to federal income taxes. Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax.	Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.) subject to federal income taxes. Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax.	Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.) subject to federal income taxes. Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax.	Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.) subject to federal income taxes. Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax.	Payment of benefits after a specified event occurs (retirement, plan termination, etc.). Plan may permit loans; early withdrawals subject to an additional tax.
Vesting	Contributions are immediately 100% vested.	Contributions are immediately 100% vested.	All contributions are immediately 100% vested.	May vest over time according to plan terms.	Employee salary reduction contributions and all safe harbor employer contributions are immediately 100% vested. Some employer contributions may vest over time according to plan terms.	Employee salary reduction contributions are immediately 100% vested. Employer contributions may vest over time according to plan terms.	Employee salary reduction contributions are immediately 100% vested. Employer contributions may vest over time according to plan terms.	May vest over time according to plan terms.

[1] Maximum compensation on which contributions can be based is $330,000 for 2023 and $345,000 for 2024.
[2] Maximum compensation on which employer 2% contributions can be based is $330,000 for 2023 and $345,000 for 2024.

Payroll Deduction IRAs

Even if an employer doesn't want to adopt a retirement plan, the employer can allow its employees to contribute to an IRA through payroll deductions, providing a simple and direct way for employees to save. In this type of arrangement, the employee always makes the decisions about whether, when, and how much to contribute to the IRA (up to $6,500 for 2023 and $7,000 for 2024, and $7,500 for 2023 and $8,000 for 2024 if age 50 or older, increasing thereafter).

Some individuals eligible to contribute to an IRA wait until the end of the year to set aside the money and then find that they don't have sufficient funds to do so. Payroll deductions allow employees to plan ahead and save smaller amounts each pay period. Payroll deduction contributions are tax-deductible by the employee, to the same extent as other IRA contributions.

Simplified Employee Pensions (SEPs)

A SEP plan allows employers to set up SEP IRAs for themselves and each of their employees. Employers generally must contribute a uniform percentage of pay for each employee, although they do not have to make contributions every year. Employer contributions are limited to the lesser of 25 percent of pay or $66,000 for 2023 and $69,000 for 2024. (Note: the dollar amount is indexed for inflation and may increase.) Most employers, including those who are self-employed, can establish a SEP.

SEPs have low start-up and operating costs and can be established using a two-page form (Form 5305-SEP). And you can decide how much to put into a SEP each year – offering you some flexibility when business conditions vary.

SIMPLE IRA Plans

A SIMPLE IRA plan is a savings option for employers with 100 or fewer employees.

This plan allows employees to contribute a percentage of their salary each paycheck and requires employer contributions. Under SIMPLE IRA plans, employees can set aside up to $15,500 in 2023 and $16,000 in 2024 ($19,000 in 2023 and $19,500 in 2024 if age 50 or older) by payroll deduction (subject to cost-of-living adjustments in later years). Employers must either match employee contributions dollar for dollar – up to 3 percent of an employee's compensation – or make a fixed contribution of 2 percent of compensation for all eligible employees, even if the employees choose not to contribute.

If your plan provides for it, you can choose to automatically enroll employees in SIMPLE IRA plans as long as the employees are allowed to choose not to have salary reduction contributions made to their SIMPLE IRAs or to have salary reduction contributions made in a different amount.

SIMPLE IRA plans are easy to set up. You fill out a short form to establish a plan and ensure that SIMPLE IRAs (to hold contributions made under the SIMPLE IRA plan) are established for each employee. A financial institution can do much of the paperwork. Additionally, administrative costs are low.

You may have your employees set up their own SIMPLE IRAs at a financial institution of their choice or have all SIMPLE IRAs maintained at one financial institution you choose.

Employees can decide how and where the money will be invested, and keep their SIMPLE IRAs even when they change jobs.

Profit Sharing Plans

Employer contributions to a profit sharing plan can be discretionary. Depending on the plan terms, there is often no set amount that an employer needs to contribute each year.

If you do make contributions, you will need to have a set formula for determining how the contributions are allocated among plan participants. The funds are accounted separately for each employee.

Profit sharing plans can vary greatly in their complexity. Many financial institutions offer prototype profit sharing plans that can reduce the administrative burden on individual employers.

401(k) Plans

401(k) plans have become a widely accepted retirement savings vehicle for small businesses. An estimated 60 million U.S. workers participate in 401(k) plans that have total assets of about $6.9 trillion.

With a 401(k) plan, employees can choose to defer a portion of their salary. So instead of receiving that amount in their paycheck today, the employees can contribute the amount into a 401(k) plan sponsored by their employer. These deferrals are accounted separately for each employee. Deferrals are made on a pretax basis but, if the plan allows, the employee can choose to make them on an after-tax (Roth) basis. Many 401(k) plans provide for employer matching or other contributions. The Federal Government and most state governments do not tax employer contributions and pretax deferrals (plus earnings) until distributed.

Like most profit sharing plans, 401(k) plans can vary significantly in their complexity. However, many financial institutions and other organizations offer IRS pre-approved 401(k) plans, which can greatly lessen the administrative burden of establishing and maintaining these plans.

Safe Harbor 401(k) Plans

A safe harbor 401(k) plan is intended to encourage plan participation among rank-and-file employees and to ease the administrative burden by eliminating the tests ordinarily applied under a traditional 401(k) plan. This plan is ideal for businesses with highly compensated employees whose contributions would be limited in a traditional 401(k) plan.

A safe harbor 401(k) plan allows employees to contribute a percentage of their salary each paycheck and requires employer contributions. In a safe harbor 401(k) plan, the mandatory employer contribution is always 100 percent vested.

Automatic Enrollment 401(k) Plans

Automatic enrollment 401(k) plans can increase plan participation among rank-and-file employees and make it more likely that the plan will pass the tests ordinarily required under a traditional 401(k) plan. Some automatic enrollment 401(k) plans are exempt from the testing. This type of plan is for employers who want a high level of participation, and who have highly compensated employees whose contributions might be limited under a traditional 401(k) plan.

Employees are automatically enrolled in the plan and contributions are deducted from their paychecks, unless they opt out of contributing after receiving notice from the plan. There are default employee contribution rates, which may rise incrementally over the first few years, although the employee can choose different amounts.

Employer Association and Professional Employer Organization Retirement Plans

You can join with other employers in your geographic area or industry as an employer group or association to offer a defined contribution retirement plan, such as a 401(k), to your employees. Also, if you use a professional employer organization (PEO) as part of your business, your PEO may sponsor a defined contribution plan that you can offer to your employees. A well-run employer association or PEO multiple employer plan can help groups of small employers obtain economies of scale for administrative costs and investment choices currently enjoyed by large businesses. The employer association or PEO can act as plan administrator and assume many of the responsibilities of operating the plan, allowing you to keep more of your day-to-day focus on managing your business.

Pooled Employer Plans

Pooled employer plans provide a way for unrelated employers with no common interest or other organizational relationship to participate in a multiple employer defined contribution retirement plan, such as a 401(k), and offer a retirement savings option to their employees. A pooled employer plan allows many of the administrative and fiduciary responsibilities of sponsoring a retirement plan to be transferred to a pooled plan provider. Similar to employer association and PEO plans, a well-run pooled employer plan can offer employers, especially small employers, a workplace retirement savings option with reduced burdens and costs compared to sponsoring their own separate retirement plan.

Defined Benefit Plans

Some employers find that defined benefit plans offer business advantages. For instance, businesses can generally contribute (and therefore deduct) more each year than in defined contribution plans. In addition, employees often value the fixed benefit provided by this type of plan and can often receive a greater benefit at retirement than under any other type of retirement plan. However, defined benefit plans are often more complex and, likely, more expensive to establish and maintain than other types of plans.

To Find Out More...

The following jointly developed publications are available for small businesses on the DOL and IRS websites and through DOL's toll-free number listed below:

- *401(k) Plans for Small Businesses* (Publication 4222)
- *Automatic Enrollment 401(k) Plans for Small Businesses* (Publication 4674)
- *Payroll Deduction IRAs for Small Businesses* (Publication 4587)
- *Profit Sharing Plans for Small Businesses* (Publication 4806)
- *SEP Retirement Plans for Small Businesses* (Publication 4333)
- *SIMPLE IRA Plans for Small Businesses* (Publication 4334)

For business owners with a plan:

- *Adding Automatic Enrollment to Your 401(k) Plan* (Publication 4721)
- *Retirement Plan Correction Programs* (Publication 4224)

DOL website

Publications request number: **866-444-3272**

IRS website

Also available from the U.S. Department of Labor:
DOL sponsors an interactive website – the **Small Business Retirement Savings Advisor** – that encourages small business owners to choose the appropriate retirement plan for their business and provides resources on maintaining plans.

Publications for small businesses:

- *Meeting Your Fiduciary Responsibilities*
- *Understanding Retirement Plan Fees and Expenses*
- *Selecting an Auditor for Your Employee Benefit Plan*
- *Selecting and Monitoring Pension Consultants – Tips for Plan Fiduciaries*
- *Tips for Selecting and Monitoring Service Providers for Your Employee Benefit Plan*

Also available from the Internal Revenue Service:

- *Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)* (Publication 560)
- *Contributions to Individual Retirement Arrangements (IRAs)* (Publication 590-A)
- *Distributions from Individual Retirement Arrangements (IRAs)* (Publication 590-B)
- *Designated Roth Accounts Under 401(k), 403(b), or Governmental 457(b) Plans* (Publication 4530)

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