Retirement Plan Types

Small & Medium Size Organizations

Topics of Discussion

Why Have an Employer Retirement Plan

Types of Employer Plans Available

Considerations

Types of Executive-Only Plans

Next Steps

Why Have an Employer Retirement Plan

Recruit & Retain

RECRUIT: Many employers want a competitive benefits package as potential new hires are comparing your benefits to those of others.

RETAIN: Don’t be shy, let employees know how generous you are and encourage them to use tools to gauge if they’re “on track” for retirement. Your generosity is helping to get them there!

- Employer contributions are tax-deductible.
- Assets in the plan grow tax-free.
- Flexible plan options are available.
- A retirement plan can attract and retain better employees, reducing new employee training costs.

- Tax credits and other incentives for starting a plan may reduce costs.

Eligible employers

You qualify to claim this credit if:

- You had 100 or fewer employees who received at least $5,000 in compensation from you for the preceding year;
- You had at least one plan participant who was a non-highly compensated employee; and
- You didn't previously sponsor a plan

Amount of the credit

The credit is 50% of your ordinary and necessary eligible startup costs up to a maximum of $500 per year.

Eligible startup costs

You may claim the credit for ordinary and necessary costs to:

- Set up and administer the plan, and
- Educate your employees about the plan.

- Employee contributions can reduce current taxable income.
- Contributions and investment gains are not taxed until distributed.
- Contributions are easy to make through payroll deductions.
- Compounding interest over time allows small regular contributions to grow to significant retirement savings.
- Retirement assets can be carried from one employer to another.
- Saver's Credit is available.

You're eligible for the credit if you're:
- Age 18 or older;
- Not a full-time student; and
- Not claimed as a dependent on another person's return.

The amount of the credit is:
- 50%, 20% or 10% of your retirement plan or IRA based on your adjusted gross income

The maximum credit is:
- $1,000, single filer
- $2,000, married filing jointly

- Employee has an opportunity to improve financial security in retirement.

Types of Employer Plans Available

Types of Plans Available

Retirement Plans for Employers <100 Employees

- Payroll Deduction IRA
- SEP
- SIMPLE IRA
- 401(k)
- 403(b)
- 457(b)

Retirement Plans for Employers 100+ Employees

- 401(k)
- 403(b)
- 457(b)

Plan Feature Comparison Chart

Sponsor/ Eligible Employer	Key Advantage	Plans to Consider
Any employer	easy to set up and maintain	**Payroll Deduction IRA**
Any employer	easy to set up and maintain	**SEP**
Employers with 100 or fewer employees that do not currently maintain another plan	salary reduction plan with little administrative paperwork	**SIMPLE IRA Plan**
Any non-government employer Governments, only if plan was established prior to May 1986	permits high level of salary deferrals by employees may include designated Roth program	**401(k)**
Public education employers 501(c)(3) organizations	permits high level of salary deferrals by employees may include designated Roth program	**403(b)**

Payroll IRAs - **$0** to employer

SEP[1] - **$0** to employer

SIMPLE[1] - **$350 plan fee/$25** participant

401(k)[2] and 403(b) Plan – Startup: **$4,000**

1 – Fidelity's costs to setup and run the program
2 – ASAE 401k Program Sample Startup Plan Cost; Fee for established plans can start at $0 billable employer costs

Considerations

What's the Right Fit?

Key takeaways

- ✓ Do you have, or expect to have, any "common law employees"?
- ✓ Do you want your employees to be able to contribute their own money too?
- ✓ Which is a higher priority—maximum contributions or simple administration?

Small-staff organizations

Features	SEP IRA	SIMPLE IRA	Self-Employed 401(k)
Who it's for	▪ Self-employed individuals or small-business owners, including those with employees ▪ Sole proprietors, partnerships, corporations, S corporations	▪ Companies with 100 employees or fewer, that do not have any other retirement plan ▪ Sole proprietors, partnerships, corporations, S corporations	▪ Self-employed individuals or business owners with no employees other than a spouse (and no plans to add employees) ▪ Sole proprietors, partnerships, corporations, S corporations with no common law employees
Key advantages	▪ Easy to set up and maintain ▪ No initial setup or annual maintenance fee	▪ Salary reduction plan with less administration ▪ Low-cost option of $25 per participant or $350 plan fee	▪ Generous contribution limits ▪ No initial setup or annual maintenance fee

What's the Right Fit?

Small-staff organizations

Features	SEP IRA	SIMPLE IRA	Self-Employed 401(k)
Who contributes	▪ Employer only (employee may make traditional IRA contributions to the account)	▪ Employer and employee	▪ Employer and employee (assuming the employee is the business owner or spouse)
Contribution limits	▪ Employer contributes up to 25% of eligible employee compensation or up to a maximum of $56,000 in 2019 ▪ Employer must contribute the same percentage to employee accounts in years they contribute to their own account	▪ Mandatory business contribution of either: 1) 100% match on the first 3% deferred (match may be reduced to 1% in 2 out of 5 years) or 2) a 2% nonelective contribution on behalf of all eligible employees. No additional business contribution may be made. ▪ Employee contributes up to 100% of eligible compensation through salary deferral, not to	▪ Employers may contribute up to 25% of eligible compensation up to a maximum of $56,000 in 2019 ▪ Up to $19,000 in salary deferrals; $24,500 if age 50 or older ▪ Total contributions to a participant's account, not counting catch-up contributions for those age 50 and over, cannot exceed $56,000 for 2019

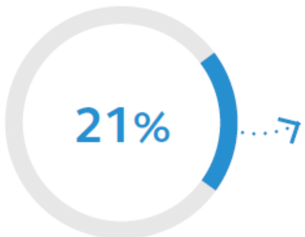
Sponsor/Eligible Employer	• any non-government employer for 401(k) • public education and 501(c)3 for 403(b)
Key Advantage	• permits high level of salary deferrals by employees • may include designated Roth program
Employer's Role	• arrange for employees to make elective deferral contributions and transmit contributions • annual filing of Form 5500 is required (unless government entity) • may require annual nondiscrimination testing to ensure that plan does not discriminate in favor of highly compensated employees • no model form to establish this plan
Contributors to the Plan	• employee elective deferral contributions • employer contributions are permissible but not required
Maximum Annual Contribution* (per participant)	• employee elective deferrals: • - $19,000 in 2019 • employer & employee: • - lesser of $55,000 (2019) or 100% of compensation, subject to nondiscrimination testing
Catch-Up Contributions*	• 401(k): age 50 or over—additional elective deferrals - $6,000 in 2019 • 403(b): Special Catchup Rule for healthcare and higher education entities
Minimum Employee Coverage Requirement	• must pass minimum coverage test
Withdrawals, Loans, and Distributions	• withdrawals permitted after a distributable event occurs (e.g., retirement, death, disability, severance from 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,
Rollovers/Transfers	• rollovers permitted to an eligible retirement plan or IRA,
Vesting	• employee elective deferral contributions are immediately 100% vested employer contributions may vest over time according to plan terms
Employee Plans Compliance Resolution System (EPCRS)	• yes

* See www.irs.gov/retirement for annual updates

Executive-Only Plan

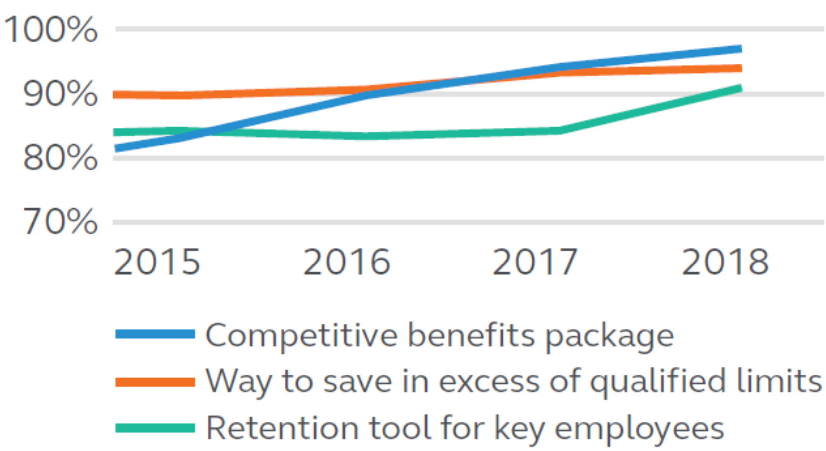
Why Executives Need a 457(b) Plan

Participants are planning to increase contributions, and here are the top reasons why:



- **83%** – Desire to save for retirement goals
- **55%** – Can afford to defer more
- **50%** – Can't save enough in a qualified retirement plan
- **44%** – Help manage current income tax rate

Total importance for top reasons to offer the plan



Total importance of the plan for key employees

Principal Study: Trends in Non-Qualified Deferred Compensation, published March 2019

457(b) Executive Plan

Sponsor/Eligible Employer	• any tax-exempt organization
Key Advantage	• permits high level of salary deferrals by employees
Employer's Role	• arrange for employees to make salary reduction contributions • no model form to establish this plan
Contributors to the Plan	• employee salary reduction contributions • employer contributions are permissible but not required
Maximum Annual Contribution* (per participant)	• employer & employee: - $19,000 in 2019 - no age 50 or over additional salary reduction contribution
Catch-Up Contributions*	Special 457 catch-up: • 3 years prior to the year of normal retirement age • limited to lesser of: 1) $38,000 (twice the basic annual limit) in 2019, or 2) the basic annual limit plus underutilized basic annual limit in prior years
Minimum Employee Coverage Requirement	• selected group of management or highly compensated employees • independent contractors • does not need to pass a minimum coverage test
Withdrawals, Loans, and Distributions	• withdrawals permitted after severance from employment • must start receiving distributions by April 1 following the later of year of retirement or attainment of age 70½ • plan may not permit loans • special rules apply to independent contractors
Rollovers/Transfers	• no rollovers permitted • post-severance transfers permitted from one tax-exempt 457(b) to another tax-exempt 457(b)
Vesting	• employee and employer contributions must be subject to claims of creditors

Difference between 457(b) and 457(f)

457(b) and 457(f) comparison

	457(b)	457(f)
Pre-tax contributions	Yes	Yes
Earnings accumulate tax-deferred	Yes	Yes
Contribution types	Employee and employer	Employee* and employer
Contribution limits	Typically match 402(g) limits	No contribution limits
Vesting	Typically 100% vested at all times	0% vested until benefits paid
Covered by 409A	No	Yes

* Optional but with considerations for the employee and additional expenses for the employer.

Key Takeaways:

- ✓ 457(b) Plans are excellent ways for executives to achieve higher tax deferred contributions each year.
- ✓ 457(f) Plans are excellent ways to provide incentive pay by the Board to attract and retain top person(s).

Note: 457(f) plans are required to have a substantial risk of forfeiture to maintain tax status. This stipulation generally means an executive's employment is up to the Board and severance of employment can not be voluntary.

Next Steps

Sponsoring a Plan: Choose and Establish

Choose

Determine what the most important aspects of having a plan are:

- Importance of tax deferral for employee
- Employer funding requirement
- Administrative requirements and operational responsibility

Establish

Depending on the type of plan you choose, the administrative steps may include:

- Decide to work with a retirement plan advisor
- Decide what service providers and platform will work best for the type of plan and participants
- Adopt a written plan;
- Arrange fund(s) for the plan's assets;
- Notify eligible employees about the terms of the plan; and
- Establish payroll processes and system setup (integration with payroll and 401k/403b providers are available)

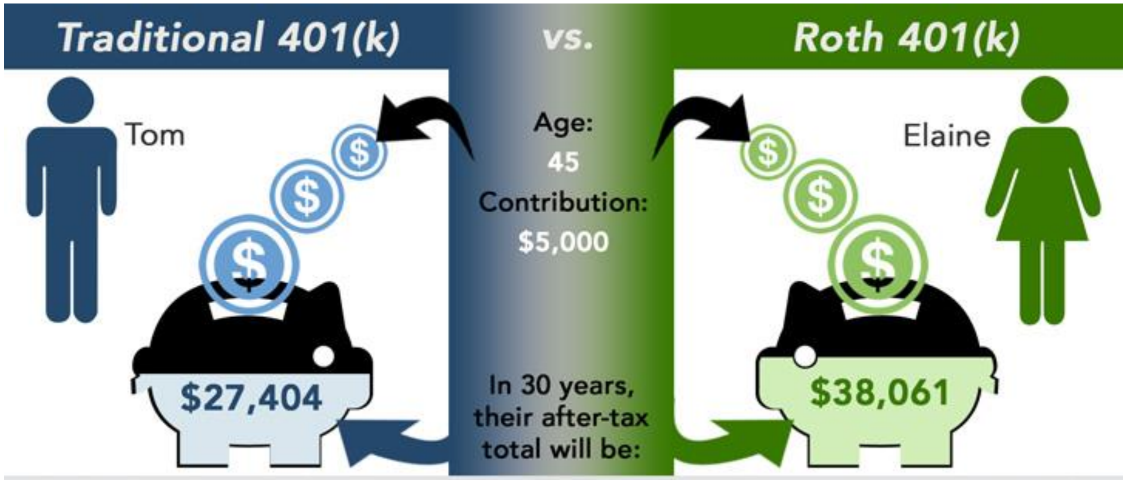
Sponsoring a Plan: Operate the Plan

Operate

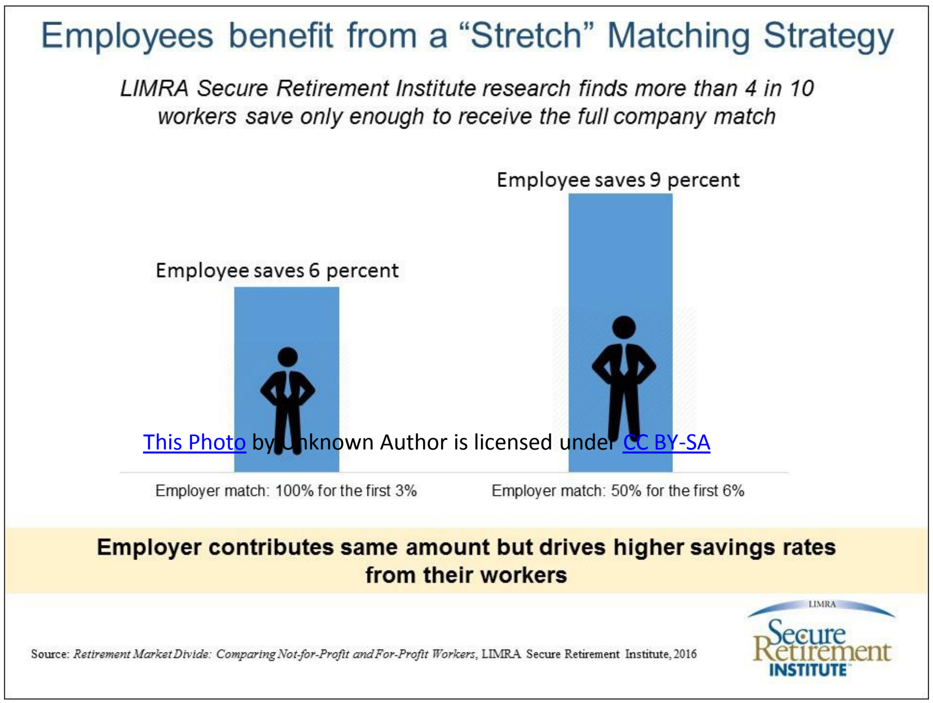
You want to operate your retirement plan so that the assets in the plan continue to grow and the tax-benefits of the plan are preserved. These will vary based on the type of plan offered:

- Cover eligible employees;
- Making contributions, especially those for 401k and 403b plans that require consistent deposit;
- Keep the plan up-to-date with retirement plan laws;
- Managing the plan assets and work with advisor to review;
- Provide education and information to employees participating in the plan; and
- Distribute benefits.

401(k) & 403(b) Features to Consider



This hypothetical example for is illustrative purposes only. It assumes a 30-year investing time horizon and compounds investments annually at a rate of 7% in the Roth and Traditional 401(k) accounts. Marginal tax rates are assumed to be 28% in the contribution year and in the year of withdrawal.



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THANK YOU

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