



EQUITABLE

Helping business owners make an informed choice

Retirement plan comparison guide

Includes 2022 limits

The variety of retirement plans available to employers today is greater than it has ever been.

But, what retirement plan is most suitable?

The answer may depend on a number of factors.

Factors such as consistency of revenues, employee pay and demographics can play a role in the retirement plan selection.

The following information may help inform a decision about which retirement plan is most suitable.

Simplified Employee Pension (SEP)

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What it is:	A low-cost retirement plan with complete contribution flexibility from year to year. It is appropriate for self-employed individuals and small business owners, including those with few or no employees.	
Who contributes:	Employer only. Contributions are discretionary.	
Key advantages:	<ul style="list-style-type: none">• Simple and inexpensive to establish and administer.• Individual Retirement Accounts (IRAs) are established for each employee and each employee determines how contributions will be invested.	<ul style="list-style-type: none">• Employer is not required to make contributions every year.• Contributions equal to a percentage of each participant's annual pay (capped at \$305,000 for 2022). Each participant's contribution is limited to the lesser of 100% of pay or \$61,000 (for 2022).• Employer may deduct contributions up to 25% of total aggregate compensation for all participants.
Points to consider:	<ul style="list-style-type: none">• Employees are not allowed to contribute.• Loans are not permitted.• All employees must be included in the plan (provided they meet certain eligibility requirements).	<ul style="list-style-type: none">• Contributions are 100% vested, so if an employee leaves employment in the same year a contribution is made, they get to keep that entire contribution.• If an employer makes a contribution for themselves, an equal percentage contribution must be made for each employee.

SIMPLE IRA

What it is:	A SIMPLE IRA plan is intended for smaller businesses. It is appropriate for self-employed individuals and small business owners, with 100 or fewer employees. This plan type offers an employer the ability to establish an important employee benefit without the expense and complex reporting that 401(k) plans and other qualified retirement plans generally require.	
Who contributes:	Employers and employees. Employees can contribute up to \$14,000 in pretax dollars. Employers contribute the mandatory 100% match of employee contributions up to 3% of compensation or a mandatory contribution of 2% compensation for all eligible employees, regardless of whether the employee contributes.	
Key advantages:	<ul style="list-style-type: none">• Simple and inexpensive to establish and administer.	<ul style="list-style-type: none">• Catch-up contributions may be made by participants age 50 and over. The catch-up contribution is limited to \$3,000 in 2022.
Points to consider:	<ul style="list-style-type: none">• Simple IRA must be the only plan of the employer.• Employer contributions are mandatory and 100% immediately vested.• Employees can contribute a maximum of \$14,000 in 2022.	<ul style="list-style-type: none">• Employer's maximum contribution is 3% of compensation for all eligible employees. Other plans may allow more in contributions.• Loans are not permitted.

Owners 401(k) plan

What it is:	In essence, an Owners 401(k) plan is a traditional 401(k) plan covering one-person firms or businesses with no common-law employees.
Who contributes:	Owners, spouses and certain family members employed by the business. Owners can deduct profit-sharing contribution up to 25% of compensation. Each participant may make salary deferrals up to \$20,500 (plus up to \$6,500 for those age 50 and older) in 2022. In addition, employer contributions are permitted to reach \$61,000 for each participant when combined with salary deferral amounts (or a total of \$67,500 if 50 or older), or if less, 100% of the participant's annual compensation. For 2022, the maximum amount of compensation that can be considered for contribution purposes is \$305,000.
Key advantages:	<ul style="list-style-type: none">• Owner can contribute meaningful dollars toward the retirement of their spouse or certain other family members employed by the business.• Catch-up contributions may be made by participants age 50 and over. The maximum catch-up contribution is \$6,500 in 2022.• The employer contributions may be deducted in an amount up to 25% of total compensation (in addition to salary deferral amounts).• A loan provision may be included to allow participants to borrow up to \$50,000 or 50% of their vested assets, whichever is less.• Hardship withdrawals may be made available.• Designated Roth (after-tax) contributions may be permitted.
Points to consider:	<ul style="list-style-type: none">• If common-law employees are hired, the plan will need to be changed to a 401(k) plan, including all eligible employees, or discontinued.• Greater administrative requirements and costs than a SEP.

Traditional 401(k) plan

What it is:	A 401(k) plan allows employees to make salary deferral contributions through payroll deductions. Employer contributions generally are not required; however, the majority of plans do provide employer-matching or profit-sharing contributions.
Who contributes:	Employees only, or employees and employer. Employees can contribute up to \$20,500 in 2022, subject to employee/employer total contribution of the lesser of 100% of pay or \$61,000 in 2022.
Key advantages:	<ul style="list-style-type: none">• Employees gain a valuable benefit since contributions accumulate on a tax-deferred basis.• Employees generally make investment decisions.• Benefit from increased contribution limits.• Hardship withdrawals may be made available.• Catch-up contributions may be made by participants age 50 and over. The maximum catch-up contribution is \$6,500 in 2022.• Employers may include a loan provision to allow employees to borrow up to \$50,000 or 50% of their vested assets, whichever is less.• Plan may permit designated (after-tax) Roth contributions.
Points to consider:	<ul style="list-style-type: none">• Greater administrative requirements and costs than a SIMPLE IRA.

Safe harbor 401(k) plans

What it is:

A special type of 401(k) plan that is not subject to 401(k) nondiscrimination testing requirements, provided certain employer contribution, vesting and notice requirements are met. Safe harbor plans can allow highly compensated employees to maximize plan contributions. These two types of harbor provisions are:

- Traditional safe harbor
- Qualified Automatic Contribution Arrangement (QACA)

Who contributes:

Same employee salary deferral options as a traditional 401(k) plan. For both safe harbor options, mandatory employer contributions apply either in the form of a match on employee salary deferrals or a percentage of employee annual pay. A traditional safe harbor design requires full and immediate vesting of both types of employer contributions. The QACA Safe Harbor combines an automatic contribution arrangement, subject to minimum initial and ongoing escalation percentage requirements, with required employer contributions. The employer match option is slightly less than the traditional safe harbor match. Both the QACA match and employer contribution may be subject to a 2-year vesting schedule. Employees may opt-out of the automatic contribution arrangement without impacting the safe harbor status of the plan.

Key advantages:

- Same key advantages as a 401(k) plan.
- Owners and other highly compensated employees can contribute the maximum allowed, regardless of employee participation levels, as long as mandatory employer contributions are made.
- Nondiscrimination testing (ADP and ACP tests) is not required.
- Safe harbor plans may also satisfy top heavy minimum contribution requirements.
- Employer contribution under a QACA can be subject to vesting schedule (2-year maximum).

Points to consider:

- **Traditional safe harbor plan** — Required employer contributions are 100% vested immediately. Additional discretionary employer contributions can be subject to vesting schedule. Mandatory annual employee notice requirements.
- **QACA** — Employer-matching contribution obligation may be higher due to increased participation of automatically enrolled participants. Mandatory annual employee notice requirements.
- Greater administrative requirement and costs than a SIMPLE IRA.

Profit-sharing plan

What it is:

A profit-sharing plan allows employees to share in the profits of the employer on a tax-deferred basis. The amount contributed may be at the employer's discretion each year, thus an employer is not locked into a predetermined contribution amount. An employer does not need to have a profit in a given year in order to make a contribution.

Who contributes:

Employer only. The overall maximum contribution per eligible employee is 100% of compensation, not to exceed \$61,000 in 2022, including 401(k) deferrals, based on the first \$305,000 of compensation in 2022.

Key advantages:

- The maximum profit-sharing allocation per participant is the lesser of 100% of compensation or \$61,000 in 2022.
- Employers can include a loan provision to allow employees to borrow up to \$50,000 or 50% of their vested assets, whichever is less.
- Employers decide each year the amount they will contribute.
- A choice of vesting schedules is available to reward long-term employees.
- Can be combined with a 401(k) feature.
- Employer may deduct contributions up to 25% of total aggregate compensation of all participants.

Points to consider:

- Like SEPs, owners must make employee contributions if they wish to contribute for themselves.
- Greater administrative complexity and compliance requirements, including government filings, can result in higher costs.

Profit-sharing plans, age-weighted or new comparability

What it is: Age-weighted and new comparability profit-sharing plans are means of allocating profit-sharing contributions. These “age-based” plans may be appropriate for business owners who are older than most of their employees and want to maximize their own contributions, while keeping contributions for other employees affordable.

Who contributes: Employer only. The maximum profit-sharing allocation per participant is the lesser of 100% of the participant’s compensation (not in excess of \$305,000 for 2022) or \$61,000 for 2022.

Key advantages:

- All the advantages of a profit-sharing plan plus the ability to provide business owners with a higher contribution allocation, while keeping the cost of contributions for younger employees more affordable.
- Beneficial to companies where the key employees are generally at least 10 years older than the rest of the employee population.
- Can be combined with a 401(k) feature.
- Employer may deduct contributions up to 25% of total aggregate compensation of all participants.

Points to consider:

- Greater administrative requirements and costs than SEP or traditional profit-sharing plans.

Defined benefit plan

What it is: A defined benefit plan provides a participant with a specific benefit at retirement age, which is based on a predetermined formula typically based on compensation and years of service. These plans can be beneficial to older business owners with high, stable incomes who need a rapid accumulation of assets over a short period of time.

Who contributes: The sponsoring employer is required to make periodic contributions that, together with trust investment earnings, are sufficient to fund promised benefits when they become due and payable.

Key advantages:

- Employer can contribute (and deduct) more than under other retirement plans.
- Plan provides predictable benefits.
- Certain plans may invest in individual insurance and annuity policies, subject to the requirements of the Internal Revenue Code and regulations, where the retirement and death benefits under the plan are guaranteed by the insurance company.

Points to consider:

- Defined benefit plans can be more expensive to establish and maintain than defined contribution plans. The services of an actuary are necessary.
- Mandatory contributions are required to fund the employees’ retirement benefit.
- The benefit promised by the plan must be paid, regardless of the plan’s investment performance.
- Requires substantial contributions for the years it is funded.
- Subject to the Pension Benefit Guaranty Corporation (PBGC) premium requirements.

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