



Retirement Plans for Small Businesses

There are options for small businesses that want to set up a retirement plan for their employees. Employer and employee contributions to retirement plans are generally tax-deductible.

Two plans are specifically designed to make it easier for smaller businesses to set up a retirement plan. These plans require very little paper work and have low administrative costs.

- **SEP** – Simplified Employee Pension
- **SIMPLE** – Savings Incentive Match Plans for Employees

Other options for businesses include:

- **401(k) plans**
- **Profit-sharing Plans**

SEP – Simplified Employee Pension

Under a SEP, an employer contributes directly to traditional individual retirement accounts (SEP-IRAs) for all eligible employees (including themselves). A SEP does not have the start-up and operating costs of a conventional retirement plan. Contributions to a SEP are also tax deductible and your business pays no taxes on the earnings on the investments. A business of any size, even someone self-employed, can set up a SEP.

How it works:

- The employer chooses a percentage to contribute. In 2024, this amount can be up to 25% of compensation, with a maximum of \$69,000.
- Each year, the employer can decide how much to put into a SEP, and you are not locked into making contributions every year.
- Generally, you do not have to file any documents with the government.

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Easy to set up:

- The employer fills out a short form.
- The employer finds a bank, mutual fund, or other financial institution with which to set up the plan. The financial institution will complete additional paperwork.
- Administrative costs are low.

Good for employees:

- Employees are 100% vested in all contributions;
- Employees can choose where to invest their money; and
- Employees keep their accounts when they change jobs.

SIMPLE – Savings Incentive Match Plans for Employees

A SIMPLE plan allows employees and employers to contribute to traditional IRAs set up for employees. It is ideally suited as a start-up retirement savings plan for small employers not currently sponsoring a retirement plan. Employers with 100 or fewer employees can set up a SIMPLE.

How it works:

- Largely funded by employee contributions, but limited employer contribution required.
- In 2024, employees may contribute a percentage of their salary, up to \$16,000 a year (plus an additional \$3,500 if you're 50 or older)
- Each year, the employer contributes either:
 - an amount that is equal to the employee's contribution (up to 3% of pay); **OR**
 - a fixed contribution of 2% of the employees' wages

Easy to set up:

- The employer fills out a short form.
- The employer finds a bank, mutual fund or other financial institution with which to set up the plan. The financial institution will complete additional paperwork.
- Administrative costs are low.
- No IRS reporting is required.

Good for employees:

- Employees are 100% vested in all contributions;
- Employees can choose where to invest their money; and
- Employees keep their accounts when they change jobs.

401(k) Plans and Profit-Sharing Plans

How 401(k)s work:

- Employees contribute a percentage of their pay to the 401(k) up to a certain limit. In 2024, the contribution limit is \$23,000 (plus an additional \$7,500 if you're 50 or older). Salary deferrals can be either on a pre-tax basis or as designated Roth contributions.
- The employer may match the contribution.
- 401(k)s are more complex to administer than SIMPLEs but may allow higher contributions.
- Unlike SIMPLE and SEPs, these plans require reporting to the government.

How profit-sharing plans work:

- The employer bases contributions on business profits or a percentage of pay.
- The employer can change the percentage each year.

To access resources for small businesses, including a chart comparing these plans and the publications: “*SEP Retirement Plans for Small Business*” and “*SIMPLE IRA Plans for Small Business*” see the Department of Labor’s *Saving Matters Campaign* page:

<https://www.savingmatters.dol.gov/employers.htm>