Quincy Cass Associates, Inc.

Small-Business Retirement Products Guide

Helping clients select the right retirement plan for a small business can be daunting. Should they choose a SEP IRA? SIMPLE IRA? Profit-sharing plan or individual 401(k)? The following three steps can help you make an informed decision.

Step 1: Ask Questions

By asking yourself pertinent questions early in the process, you may be better equipped to choose the retirement program that best fits your needs. Here are some basic questions to ask.

- What is your primary objective for establishing a plan? Is it maximizing your own annual contributions? Providing for your employees? Recruiting and retaining talent? Or all of the above?
- Who will make the contributions to the plan? You? Your employees? Or both?
- How much is budgeted for the plan, including administration costs and contributions?
- Do you want any "special" features, such as a vesting schedule or the ability for participants to access their money before termination of employment or before retirement?
- Do you know how many of your employees will participate?
- Would a company match increase employee participation?
- Would a match increase your share of contributions?
- Are you willing to make contributions on behalf of all eligible employees?

Step 2: Analyze Client Needs

Once you have determined your motivation for establishing a plan, you can narrow down the plans that might be in line with your objectives.

OBJECTIVE	PLAN CONSIDERATIONS
Minimize cost	SIMPLE IRAs and SEP IRAs generally have lower administration costs.
Minimize plan administration	SIMPLE IRAs are the easiest to set up and require minimal annual administration
Maximize contributions	SEP IRAs and profit-sharing plans allow for employer contributions up to the lesser of 25% of compensation or $66,000 for 2023 plan year.[1]
Encourage employee participation	SIMPLE IRAs and 401(k) plans allow for employee salary-deferral contributions.
Reward employee tenure	Profit-sharing plans may require employees to work a specific number of years before becoming eligible for employer contributions.
Exclude part-time employees	Profit-sharing plans allow employers to establish strict eligibility requirements, which can help or exclude part-time employees, leased employees, etc.

Step 3: Compare Plan Options

With your objectives in mind, you can further refine the list of potential retirement plan options. Each plan type offers a unique combination of features, as illustrated in the following table. Refer to the following pages for additional details.

FEATURES	LOWER COST/LESS ADMINISTRATION			HIGHER COST/MORE ADMINISTRATION
	SEP IRA Plan	**Individual 401(k)**	**SIMPLE IRA Plan**	**Profit-Sharing Plan**
Key advantage	Easy to set up and maintain	Potential for greatest tax-advantage contributions	Easy to set up and maintain	Potential to contribute the maximum allowed amount
Salary deferrals	No	Yes	Yes	No
Funding responsibility	Employer contributions only	Employee salary deferral contributions and employer contributions	Employee salary deferral contributions and employer contributions	Employer contributions only
Contribution limits	25% of compensation up to $66,000 for 2023[1]	25% of compensation up to $66,000 for 2023[1]	Employee: $15,500 Employer 3% of compensation, up to $15,500 for 2023	25% of compensation up to $66,000 for 2023[1]
Catch-up contributions for those age 50 or older	Not applicable	$7,500	$3,500	Not applicable
Vesting	Immediate vesting	Immediate vesting	Immediate vesting	Immediate vesting
Annual IRS tax filing	None	Form 5500 may be required	None	Form 5500 may be required
Loans	No	No	No	No
Maximum number of employees	No maximum	2 employees	100 employees	No maximum

For illustration purposes only. Not meant to be an exhaustive list.

SEP (Simplified Employee Pension) IRA

TARGET MARKET

- Employers with one or more employees
- Suitable for employers who wants a plan that is relatively easy to set up and administer

FEATURES

- Employer makes annual contributions to employees IRAs
- Contributions are discretionary and tax deductible for the employer
- 100% immediate vesting
- Any earnings grow tax deferred until withdrawn
- Fewer administrative requirements than qualified plans

ELIGIBILITY REQUIREMNETS

- IRS model may be used by employers who do not currently maintain a qualified plan and who have never covered employees under a defined benefit pension plan
- Must generally include employees who:
  - Are a minimum age of 21
  - Have worked for the employer for any three of the immediate past five years and have earned compensation of at least $750 for 2023
- Employer can set less restrictive eligibility requirements

DISTRIBUTIONS[2]

- Required minimum distributions (RMDs) must begin by April 1 following the year an individual turns age 73 and must occur December 31 each year thereafter
- Exceptions to the early withdrawal penalty:
  - Attainment of Age 59 ½
  - Disability as defined under Section 72(m)(7) of the Internal Revenue Code
  - Series of certain substantially equal periodic payments
  - Health insurance premiums for certain unemployed individuals
  - Qualified higher education expenses
  - Qualified first-time home purchase ($10,000 lifetime limit)
  - Certain medical expenses in excess of 10% (or 7.5% if account owner or his or her spouse was born before January 2, 1950) of adjusted gross income (AGI)
  - IRS levy under Section 6331 of the Internal Revenue Code
  - Qualified reservist duty[3]
  - Death
  - Qualified birth or adoption distribution ($5,000 limit) [4]

SEP (Simplified Employee Pension) IRA – Continued

CONTRIBUTIONS

- Maximum contribution per participant is lesser of 25% of total compensation[1] and $66,000 for 2023 (20% if self-employed)
- Uniform contribution rate for all eligible employees; including employer

DEADLINE TO SET UP/CONTRIBUTE

- Plan must be adopted by employer's tax-filing deadline, including extensions
- Contributions are due by employer's tax-filing deadline, including extensions

ADMINISTRATIVE INFORMATION

- IRS Form 5305-SEP to adopt the plan (a copy must be provided to each eligible employee)
- No employer annual tax-filing requirements
- Annual IRS Form 5498 and 1099-R reporting
- Annual RMD notice sent to account owners age 73 or older
- $125 account termination fee
- No setup or administrative fees for either the plan or account
- Annual retirement maintenance fee per account applies and may be subject to correspondent adjustments; please contact your home office for more information

SIMPLE (Savings Incentive Match Plan for Employees) IRA

TARGET MARKET

- Employers with 100 or fewer eligible employees and who do not maintain another retirement plan
- Suitable for firms that wish to offer employee salary-deferral contributions but are looking for an easier plan to administer than a 401(k) plan

FEATURES

- Simplified and typically less expensive retirement plan to administer than a 401 (k) plan
- Allows for both:
  - Voluntary employee salary-deferral contributions
  - Mandatory employer contributions that are generally tax deductible for the employer
- 100% immediate vesting
- Any earnings on employee's IRA balance grow tax deferred until withdrawn

SIMPLE (Savings Incentive Match Plan for Employees) IRA – Continued

ELIGIBILITY REQUIREMENTS

- Must include employees who:
  - Have earned at least $5,000 in compensation in any preceding two years
  - Are reasonably expected to earn at least $5,000 in compensation in the year of participation
- Business owner can set less restrictive eligibility requirements
- Employers cannot maintain another employer-sponsored retirement plan

DISTRIBUTIONS[2]

- RMDs must begin by April 1 following the year an individual turns age 73 and must occur by December 31each year thereafter
- Account must be opened for two years before a distribution can occur without penalties; If the employee is under age 59 ½, withdrawals may be subject to a 25% penalty if taken within the first two years of beginning participation, and a possible 10% penalty if taken after that time period[6]
- Exceptions from the early age withdrawal penalty:
  - Attainment of age 59 ½
  - Disability
  - Series of certain substantially equal periodic payments
  - Health insurance premiums for certain unemployed individuals
  - Qualified higher education expenses
  - Qualified first-time home purchase ($10,000 lifetime limit)
  - Certain medical expenses in excess of 10% (or 7.5% if account owner or his or her spouse was born before January 2, 1950) of AGI
  - IRS levy under Section 6331 of the Internal Revenue Code
  - Qualified reservist duty[3]
  - Death
  - Qualified birth or adoption distribution ($5,000 limit) [4]

CONTRIBUTIONS

- Maximum employee deferral contribution is lesser of 100% of compensation or $15,500 in 2023
- For those individuals who are 50 or older at the end of the taxable year, and addition annual "catch up" contribution of $3,000 (for 2023) may be made
- Mandatory annual employer contribution: Employer elects to either match contributions dollar for dollar, up to 3% of compensation for each employee electing to defer a portion of compensation,[5] or to make a mandatory nonelective contribution of 2% of compensation[1] for all eligible employees, up to a maximum of $6,600 in 2023
- Maximum employer contributions is $15,500 in 2023

SIMPLE (Savings Incentive Match Plan for Employees) IRA – Continued

DEADLINE TO SET UP/CONTRIBUTE

- Generally, the plan must be established and accepted by the IRA custodian on before October 1 for contributions to be made that year
- Employer contributions are due by employer's tax-filing deadline, including extensions
- Employee elective deferrals should be deposited as soon as administratively possible, but not later than 30 calendar days following the last day of the month for which the deferrals are withheld

ADMINISTRATIVE INFORMATION

- Employer adopts the SIMPLE plan
- Employee completes a Salary Reduction Agreement
- Custodian provides Annual Summary Description information to employer
- Annually, the employer must distribute the 60-Day Notice and Summary Description to eligible employees
- Annual IRS Forms 5498 and 1099-R reporting
- Annual RMD notice sent to account owners age 73 or older
- $125 account termination fee
- No setup or administration fee for employer or employee
- Annual retirement maintenance fee per account applies and may be subject to correspondent adjustments; please contact your home office for more information

Individual 401(k)

TARGET MARKET

- Self-employed individual or business owner with no employees other than a spouse

FEATURES

- A 401(k) with potentially higher contribution limits than a SEP IRA
- Wide range of investment choices

ELIGIBILITY REQUIREMENTS

- Self-employed individuals and owner-only businesses and partnerships
- Owners' spouse may also participate

Individual 401(k) – Continued

DISTRIBUTIONS[2]

- Minimum distributions required at age 73 or retirement, whichever is later[7]
- Distribution events:
  - Attainment of age 55 or age 59 ½, depending on the plan's normal retirement age, as selected in the Adoption Agreement
  - Disability
  - Plan termination
  - Separation from service
  - Death

CONTRIBUTIONS

- Up to $22,500 for 2023 in salary deferrals; a "catch up" provision allows an additional contribution of $7,500 for 2023 if employee is age 50 or older by the end of the applicable tax year
- Employer may contribute up to 25% of compensation, up to a maximum of $66,000 for 2023
- Total employer/employee contributions cannot exceed $66,000 for 2023

DEADLINE TO SET UP/CONTRIBUTE

- Plan needs to be adopted by employer's fiscal year end, usually December 31
- Employer contributions are due by employer's tax-filing deadline, including extensions

ADMINISTRATIVE INFORMATION

- Employer files annual Form 5500 as required by the IRS (Note: The IRS does not require the filing of Form 5500 for one participant plans that have assets of $250,000 or less for plan years after December 31, 2006) employers should consult their tax advisor for more information.
- Annual IRS Form 1099-R tax reporting
- Annual Plan Valuation Statement
- Annual RMD notice sent to account owners age 73 or older
- Annual retirement maintenance fee per account applies and may be subject to correspondent adjustments; please contract your home office for more information
- $125 account termination fee

Retirement Plan (Profit-Sharing/Money Purchase)

TARGET MARKET

- All employers, including self-employed individuals
- Profit-sharing plans are appropriate for employers who want contribution flexibility

FEATURES

- Employer-funded plan; employee contributions are not permitted
- Contributions are generally tax deductible to the employer
- Profit-sharing and money purchase plans may be used together
- 100% immediate vesting
- Earnings on contributions grow tax deferred until withdrawn
- Full brokerage account option

ELIGIBILTY REQUIREMENTS

- Must include employees who:
  - Are a minimum age of 21
  - Have worked for the employer for at least two years[8]
- Employer may set less restrictive eligibility requirements

DISTRIBUTIONS[2]

- Minimum distributions required at age 73 or retirement, whichever is later[7]
- Distribution events:
  - Attainment of age 55 or age 59 ½, depending on the plan's normal retirement age, as selected in the Adoption Agreement
  - Disability
  - Plan termination
  - Separation from service
  - Death

CONTRIBUTIONS

- Profit-sharing plan
  - Maximum employer contribution per participant is the lesser of 25% of total net compensation[1] or $66,000 for 2023 (20% if self-employed)
  - Contributions are discretionary
  - Employee contributions are not permitted
- Money purchase plan
  - Fixed annual employer contribution rate (minimum of 3%), up to 25% of total compensation,[1] not to exceed $66,000 per participant for 2023 (20% if self-employed)
  - Contributions are mandatory
  - Employee contributions are not permitted

Retirement Plan (Profit-Sharing/Money Purchase) – Continued

DEADLINE TO SET UP/CONTRIBUTE

- Plan needs to be adopted by employer’s fiscal year-end, usually December 31
- Employer contributions are due by employer’s tax-filing deadline, including extensions

ADMINSTRATIVE INFORMATION

- Employer must describe a Notice to Interested Parties when plan is established and a Summary Plan Description and Summary Annual Report to employees
- Employer files annual Form 5500 as required by the IRS (Note: The IRS does not require the filing of Form 5500 for one-participant plans that have assets of $250,000 or less for plan years after December 31, 2006); employers should consult their tax advisor for more information.
- Annual 1099-R tax reporting
- Annual Plan Valuation Statement
- Annual RMD notice sent to investors age 73 or older
- Annual retirement maintenance fee per account applies and may be subject to correspondent adjustments; please contact your home office for more information
- $125 account termination fee

Learn More Today!

If you are interested in learning more about our small-business retirement products, please contact Quincy Cass Associates.

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[1] Maximum compensation on which contributions can be based is $330,000 for 2023

[2] Distributions from certain retirement plan accounts before age 59 ½ may be subject to a 10% early withdrawal penalty unless an exception applies. For qualified plans, the plan document will indicate when distributions are permitted.

[3] A qualified reservist distribution is made to an individual ordered or called to active duty for at least 180 days. This applies to distributions taken after – and individuals called to active duty after — September 11, 2001

[4] A qualified birth or adoption distribution — available for distributions made after December 31, 2019 — is a distribution made to an individual during the one-year period beginning on the date on which a child of the individual is born or on which the legal adoption by the individual of an eligible adoptee is finalized. An eligible adoptee is an individual (other than a child of the taxpayer's spouse) who has not attained age 18 or who is physically or mentally incapable of self-support.

[5] For self-employed individuals, compensation means earned income.

[6] Distributions from a SIMPLE IRA before age 59 ½ and before the expiration of the two-year period (which begins on the first day contributions are made to an individual's SIMPLE IRA by the individual's employer) may be subject to a 25% early withdrawal penalty. Distributions from a SIMPLE IRA before age 59 ½ and after the expiration of the two-year period may be subject to a 10% early withdrawal penalty.

[7] For individuals who own 5% or more of the business, RMDs must begin by April 1 following the year the dividual reaches age 72 and must occur by December 31 each year thereafter.

[8] A year is a period of 12 consecutive months in which 1,000 hours of service are completed.

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