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Advanced Markets

Preparing for a more secure tomorrow starts today

Guide to small business retirement plans

Your business plan for the future starts here

Offering a quality retirement plan can help attract and retain talented employees. Plus, it helps show you care about their financial future.

Once you decide to offer a retirement plan, you'll need to decide what type of plan is most appropriate for your business. There are a variety of small business retirement plans, each designed to provide the benefits and flexibility small business owners need. This guide covers some of the different small business retirement plans, how each operates, and how to choose the retirement plan that is right for you.

79%

Among those who are offered an employee-funded retirement savings plan, nearly 8 in 10 employed workers participate.

"23rd Annual Transamerica Retirement Survey of Workers," nonprofit Transamerica Center for Retirement Studies, December 2023

Decisions, decisions

When choosing a small business retirement plan, the decision typically comes down to two primary issues:

1. What do you want to accomplish with the retirement plan?

2. As the business owner, how much flexibility do you need?

Retirement plan options for small businesses

- Simplified employee pension plan (SEP IRA)
- Savings incentive match plan for employees (SIMPLE IRA)
- 401(k) plan
- Defined benefit plan

The following questions can help narrow your choices and provide the information your financial professional will need to help you establish a retirement plan that fits your needs. As you go through plan descriptions, you'll begin to understand how your answers to these questions will determine which type of small business retirement plan is right for you.

How many employees do you have? ____________________

Are you willing to pay for plan administration?

☐ Yes ☐ No

Do you want to allow your employees to save as much as possible?

☐ Yes ☐ No

Do you want to allow your employees to contribute to the plan?

☐ Yes ☐ No

What contribution schedule would you like?

☐ Regular contributions on behalf of your employees

☐ Only when you can afford it

Benefits of SEP and SIMPLE IRAs

Offering an employer-sponsored retirement plan can be beneficial, but it may require an administrative and financial commitment. A SEP IRA or SIMPLE IRA may be an easier, lower-cost alternative to operating other types of retirement plans. Advantages of offering a SEP or SIMPLE IRA include:

- Employers can help employees set up their IRAs.
- The plans are relatively easy to set up.
- Plan administration is relatively simple.

SEP IRAs

What is a SEP IRA?

A SEP (simplified employee pension) IRA is an employer-sponsored retirement plan funded solely by employer contributions.

How is a SEP IRA established?

A SEP IRA is established by adopting a SEP agreement. You can get it at irs.gov (Form 5305-SEP). Some financial services companies may also be able to give you a prototype SEP agreement when you establish a SEP IRA.

How much can be contributed to a SEP IRA?

The employer can contribute up to the lesser of 25% of an employee's compensation or $70,000 (2025). For owner-employees it is 20% of net earnings from self-employment.

Do SEP contributions have to be made every year?

No. Contributions are not required to be made every year; however, any year that contributions are made, they must be made for every eligible employee.

3 easy steps to establish a SEP IRA

1. Get a SEP plan document (Form 5305-SEP), either from the IRS or the financial institution where you are setting up the SEP.
2. Provide eligible employees with a copy of the SEP plan document and work with your financial professional or institution to set up a SEP IRA for each eligible employee.
3. Contribute to each participant's SEP IRA before the deadline, which is when the employer's tax return is due (plus extensions).

SECURE 2.0 Act Update Beginning in 2023, the SECURE 2.0 Act allows Roth contributions to SEP IRAs.

SIMPLE IRAs

What is a SIMPLE IRA?

A SIMPLE (savings incentive match plan for employees) IRA is an employer-sponsored retirement plan that can be funded with employer and employee pretax contributions. SIMPLE IRAs give employees the opportunity to contribute a portion of their salary to their own retirement account in addition to the employer's contribution. There is a 100-employee limitation.

How is a SIMPLE IRA established?

The employer sets up the plan by getting a SIMPLE plan document from irs.gov or from a financial institution. The employer must decide whether all employees will have to use the same financial services company (use Form 5305-SIMPLE), or whether they can select their own financial services company (use Form 5304-SIMPLE).

Which employer contribution option should I choose?

If the matching contributions option is elected, the amount of salary contributions made by the employees will determine the amount of the employer contribution. Under the nonelective contributions option, the employer contribution is 2% of employee compensation regardless of employee salary contributions (there are limitations on compensation, $350,000 in 2025). That being said, the employer contribution under the matching contributions option is dependent upon employee participation, while the nonelective contributions option provides a more predictable employer contribution. Your financial professional can help you determine which option is best for you and your business.

How much can be saved in a SIMPLE IRA?

Employee contribution for 2025: up to $16,500 per year, with a $3,500 catch-up allowed for participants age 50 or older. Employer contribution: The employer has two choices on how they make contributions.

Matching contributions: The employer must match the amount of the employee's salary contribution up to 3% of the employee's compensation. The employer does not have to make a contribution for employees who choose not to contribute any salary.

Nonelective contributions: Instead of making a matching contribution, the employer can elect to make a contribution of 2% of compensation for all eligible employees (there are limitations on compensation, $350,000 in 2025).

4 easy steps to establish a SIMPLE IRA

1. Get a SIMPLE plan document from irs.gov or your financial institution. Use Form 5305-SIMPLE if you would like to work with one financial institution or Form 5304-SIMPLE if you would like to give your employees the option to choose their own financial institution.
2. Select the employer contribution option. The employer contribution can be either a dollar-for-dollar match, up to 3% of compensation, or a 2% nonelective contribution.
3. Provide employees with a copy of the IRS form you chose and work with your financial professional or institution to establish a SIMPLE IRA for each eligible employee.
4. Send salary contributions to the financial institution on behalf of the employee as soon as administratively feasible, but no later than 30 days after the end of the month for which the contributions are to be made. Make the matching or nonelective contribution to the employee's SIMPLE account no later than the due date for the employer's tax return (including extensions).

SECURE 2.0 Act Update Beginning in 2023, the SECURE 2.0 Act allows Roth contributions to SIMPLE IRAs.

Benefits of 401(k) plans

401(k) plans can offer employers additional flexibility in plan design and higher contribution limits for employees. Various plan design features may allow employers to maximize their own contributions, but 401(k) plans have additional administrative requirements.

What is a 401(k)?

A 401(k) plan is a qualified plan that allows employees to defer a portion of their wages to the plan on a pretax basis. The employer can also design the plan to provide a match or profit-sharing contribution. A 401(k) plan can also have a Roth 401(k) option, which allows after-tax contributions.

Can I have a 401(k) if I am the only employee in my company?

Yes. An owner employee can establish a solo 401(k) plan (referred to as one-participant plans in IRS publication 560) if he or she does not have any employees other than a spouse, or only partners (or partner's spouses) in a business partnership.

How is a 401(k) established?

A 401(k) is established by adopting a 401(k) plan document. The plan document is typically provided by a financial institution or third party administrator and allows some customization in design. The plan must be established by December 31 of the year for which plan contributions are to be made.

SECURE 2.0 Act update: First-year solo 401(k) plans for sole proprietorships or single member LLCs taxed as sole proprietorships can now establish and fund a solo 401(k) with deferrals for a previous year, up to the due date of the individual's tax filing deadline (not including extensions).

How much can be contributed to a 401(k)?

- Employee elective salary contributions for 2025: up to $23,500 ($31,000 if age 50 or older).
- Employer contribution: The employer can provide a match or profit-sharing contribution. The sum of the employee elective salary contribution, match, and profit-sharing contribution (all sources) cannot exceed $70,000 or the lesser of 100% of employee compensation (2025). Note that this does not include the $7,500 catch-up contribution for those age 50 and older.

3 steps to establish a 401(k) plan

1

Work with your financial professional or plan administrator to determine your objectives and choose the appropriate plan design.

2

Notify your employees about the plan and provide a summary plan description. Provide your employees with an election form so they can specify how much salary they want to defer.

3

Work with your financial professional and/or plan administrator to coordinate employee and employer contributions to the plan.

Defined benefits plans

A defined benefit plan is designed to provide a stream of income at retirement that is based on a predetermined formula. In some cases, the employee may have the option to choose either a stream of income or a lump-sum payment at retirement. The employer is responsible for ensuring the plan is funded to provide the benefit defined by the terms of the plan. The annual contribution requirement is the amount necessary to fund the required benefit at retirement as calculated by the plan actuary. The responsibility of funding the benefit is up to the employer. This type of plan typically requires a substantial financial commitment; however, one of the advantages of a defined benefit plan is that it can offer a relatively large annual tax-deductible contribution for the employer.

What is a defined benefit plan?

Unlike other plans that allow a specific current contribution, a defined benefit plan provides a specific benefit at retirement. Annual employer contributions to the plan are mandatory, regardless of a business's profitability. Businesses with an uneven or unpredictable cash flow should use caution when selecting a defined benefit plan.

How is a defined benefit plan established?

A defined benefit plan is established by adopting a defined benefit plan document. The plan document is typically provided by a third party administrator or financial institution and allows some customization in plan design. It is the employer's obligation to ensure the plan is adequately funded.

How much can be contributed to a defined benefit plan?

There is no specific limit on contributions to a defined benefit plan other than the amount necessary to actuarially fund the future benefit obligations of the plan. This amount can be much larger than contributions allowed under other plans; however, there is a limit on the annual benefit that may be paid from a defined benefit plan. For 2025, the benefit limit is $280,000 (indexed annually for inflation).

Can I have a defined benefit plan if I am the only employee in my company?

Yes. An owner employee can maintain a solo defined benefit plan.

3 steps to establish a defined benefit plan

1. Work with your financial professional or plan administrator to assist in establishing the plan and help with notifying employees of their eligibility
2. With the help of your plan administrator, determine the desired retirement income benefit formula
3. Work with your financial professional or plan administrator to determine how much should be added to the plan each year

Filing deadlines for calendar year businesses

Tax status	Filing deadline (typically)	Extended deadline (typically)
S-corporation	March 15	September 15
Partnership	March 15	September 15
C-corporation	April 15	October 15
Sole proprietorship	April 15	October 15

SECURE Act Update For employer-funded qualified plans, such as cash balance defined benefit plans, established after December 31, 2019, the plan adoption deadline is the employer's tax filing deadline (including extensions).

Facts at a glance:
Comparing retirement plan options

	SEP (Simplified Employee Pension) IRA	SIMPLE (Savings Incentive Match Plan for Employees) IRA
Best for	Companies that do not want the costs of administering a qualified plan. The company is willing to fund 100% of the plan contributions.	Companies with fewer than 100 employees that do not want the costs of a qualified plan and want the employees to fund part of their plan.
Who administers the plan	The employer administers the plan.	The employer administers the plan.
Employer contributions	Yes. The lesser of 25% of employee's compensation or $70,000 (2025). For owner-employees, it is 20% of net earnings from self-employment. Any Roth contributions are taxable to the employee.	Yes. The employer selects one of two options: 1. A dollar-for-dollar match of up to 3% of employee's compensation. 2. A 2% nonelective contribution for all eligible employees. Any Roth contributions are taxable to the employee.
Employee contributions	None	Yes. Salary reduction up to $16,500; $20,000 if age 50 or older in 2025. Any Roth contributions are taxable to the employee.
Last date for contributions	Due date of employer's tax return (including extensions).	Salary contribution: As soon as administratively feasible, but no later than 30 days after the end of the month for which the contributions are to be made. Employer contribution: Due date of the employer's tax return (including extensions).
Plan setup deadline	Anytime up to the due date of employer's tax return (including extensions).	Anytime between January 1 and October 1 of the calendar year, or as soon as administratively feasible for new employers coming into existence after October 1.
Form used to establish plan	5305-SEP	5304-SIMPLE (employees select financial institution) or 5305-SIMPLE (employer selects a single financial institution).
Employee eligibility requirements	1. Reached age 21. 2. Received at least $750 in compensation for the year. 3. Has worked for the employer in at least three of the past five years.	1. At least $5,000 of compensation for the calendar year. 2. A minimum amount of prior compensation specified by the employer (not to exceed $5,000) during any of the 1) current year, 2) prior year, or 3) two years preceding the current calendar year (employer selects the time frame).

401(k) plan	Defined benefit plan
Employers wanting a plan that allows employee elective salary deferrals and the possibility for employer contributions.	Employers that want a predefined retirement benefit and want to make large tax-deductible contributions.
Third party administrators, recordkeepers, and/or the employer.	Third party administrators, recordkeepers, and/or the employer.
Not required. The plan can provide a match or profit-sharing contribution. Employer and employee contributions together cannot exceed $70,000 (2025) or the lesser of 100% of the compensation. The elective employee deferral contribution limit for 2025 is $23,500. Any Roth contributions are taxable to the employee.	Actuarially computed.
Yes. Salary reduction up to $23,500; $31,000 if age 50 or older in 2025. Any Roth contributions are taxable to the employee.	None
Salary contribution: As soon as administratively feasible, but no later than 15 days after the end of the month for which the contributions are to be made. There is a safe harbor of seven business days for deposit of elective contributions for plans with under 100 participants. Applies to both 401(k) and Roth 401(k) plans. Employer contribution: Due date of the employer's tax return (including extensions).	On or before employer's due date for filing federal tax returns (including extensions).
December 31 of each year (or end of employer's tax year). Exception for first-year solo 401(k) plans for sole proprietorships or single member LLCs taxed as sole proprietorships can now establish and fund a solo 401(k) with deferrals for a previous year, up to the due date of the individual's tax filing deadline (not including extensions).	Employer's tax filing deadline (including extensions).
Plan document	Plan document
Specified by plan document (Minimum eligibility requirements apply).	Specified by plan document (Minimum eligibility requirements apply).

Challenges and rewards

As a small business owner, offering a retirement plan to your employees can be a challenge, but it has many rewards. A retirement plan may benefit your business and your employees by:

- Helping you attract and retain employees
- Providing tax advantages for you and your business
- Enabling your employees to save a portion of their wages before taxes
- Giving your employees a tax-deferred retirement savings vehicle

Helping you and your employees prepare for retirement may reduce stress about future finances

Knowing the different types of plans available and keeping these benefits in mind can help you establish the retirement plan that is best for your business and your employees.

When it comes to preparing for your future, there's no time like the present.

Let's get started today.

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Withdrawals of taxable amounts are subject to ordinary income tax and if taken prior to age 59½, a 10% early withdrawal additional tax may apply. Withdrawals from SIMPLE IRAs are subject to ordinary income tax, and if taken within two years from the date of first contribution, a 25% early withdrawal tax may apply.

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