Choose a retirement plan for employees of tax-exempt and government entities (schools, hospitals, churches, charities)

Experts estimate that in the American workforce as a whole, workers will need 70 to 90 percent of their pre-retirement income to maintain their current standard of living when they stop working. Lower income earners may need more than 90 percent. Among these workers 25-64 years of age, a little more than half are participants in an employer-sponsored retirement plan.

Choose a Retirement Plan

The most basic retirement plan is an Individual Retirement Arrangement (IRA). Private-sector employers (for-profit and not-for-profit) and government employers can offer savings plans that use IRAs to hold savings contributions.

IRA-based plans include Payroll Deduction IRAs, Simplified Employee Pension plans (SEPs), and Savings Incentive Match Plan for Employees of Small Employers (SIMPLE IRA plans). In these plans, and also with 401(k), 403(b), and 457(b) plans, the ultimate retirement benefits depend on the dollar amount accumulated in the employee’s account. A defined benefit plan promises a specific benefit at retirement — $1,000 a month, for example. The amount of this benefit is often based on a set percentage of pay multiplied by the number of years the employee worked for the employer offering the plan.

Advantages of Having a Retirement Plan

By starting a retirement savings plan, you will help your employees save for the future, and you will help secure your own retirement. Retirement plans may also help you attract and retain better qualified employees.

Tax law changes and tax advantages, as follows, have made it more appealing than ever to establish and contribute to a retirement plan.

LAW CHANGES

- Higher contribution limits so that employees and employers can contribute larger amounts to retirement plans.
- Catch-up rules that allow employees age 50 and over to set aside additional amounts.
- Increased portability of retirement money.

TAX ADVANTAGES

- In some plans, employers can invest a certain amount of their income before it is taxed.
- A tax credit is available for eligible contributions to a retirement plan, known as the Retirement Savings Contributions Credit. This credit could reduce federal income tax up to 50 cents on the dollar.
- Money in the retirement program grows tax-free.

Retirement Plan Correction Programs

The IRS has programs structured to provide financial incentives for finding and correcting mistakes earlier rather than later. In fact, many mistakes can be corrected easily, without penalty and without notifying the IRS. The IRS system of retirement plan correction programs, the Employee Plans Compliance Resolution System (EPCRS), helps business owners protect participant benefits and keep their plans within the law. EPCRS includes:

- Self-Correction Program (SCP) — Find and correct a mistake before an audit.
- Voluntary Correction Program (VCP) — Correct your plan’s mistakes with help from the IRS.
- Audit Closing Agreement Program (Audit CAP) — If the IRS audits your plan and finds an error, you can still correct the problem. However the fee will be larger than if you had found and fixed the error yourself, or brought it in voluntarily.

For assistance or information on retirement plans, see:

- Plan Sponsor/Employee at www.irs.gov/plans
- Retirement Plans Navigator at www.irs.gov/plans

A Web guide for choosing a retirement plan, maintaining it and correcting plan errors.

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www.irs.gov

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### 401(k) Plan

- **Overview:** A popular retirement savings vehicle, the 401(k) plan allows employees to save a portion of their income pre-tax, which can grow tax-deferred. Contributions can come from both the employee and the employer, and the plan benefits are subject to actuarially determined contribution limits.

- **Contribution Limits:** The annual contribution limit is $65,500 for 2023, plus an additional $1,500 catch-up contribution for those aged 50 or older.

- **Employer Contributions:** Employer contributions can be in the form of matching contributions, nonelective contributions, and profit-sharing plans.

- **Eligibility:** Most full-time employees are eligible to participate in a 401(k) plan.

- **Withdrawals:** Withdrawals before age 59 1/2 are generally subject to a 10% early withdrawal penalty, and distributions may be taxable. Withdrawals are permitted after age 59 1/2, either through age 70 1/2 or following the later of the year of retirement or attainment of age 70.

- **Rollovers:** Distributions from a 401(k) can be rolled over to another eligible retirement plan (e.g., Traditional IRA, Roth IRA, SIMPLE IRA, or other employer plan) or to an eligible retirement plan in another employer's 401(k) plan.

### SEP (Simplified Employee Pension) Plan

- **Overview:** A simpler retirement plan option for small businesses with fewer than 100 employees, the SEP allows employers to make contributions to employees' retirement accounts. SEP contributions are made after-tax, with the benefit of not being subject to any employer matching requirements.

- **Contribution Limits:** Employers can contribute up to 25% of employee compensation, subject to an annual limit of $61,000 for 2023, with an additional $1,000 catch-up contribution for those aged 50 or older.

- **Employer Contributions:** Employer contributions can be made in the form of a profit-sharing plan or a nonelective contribution plan.

- **Eligibility:** Employers can make contributions to SEP-IRAs for most employees, including independent contractors and common-law employees.

- **Withdrawals:** Withdrawals are generally subject to a 10% early withdrawal penalty, and distributions may be taxable. Withdrawals are permitted after age 59 1/2, and distributions are subject to 10% additional tax if made before age 59.

### SIMPLE IRA Plan

- **Overview:** A flexible retirement plan option for small businesses and self-employed individuals, the SIMPLE IRA allows employers to make contributions to employees' retirement accounts.

- **Contribution Limits:** Employers can contribute up to 25% of employee compensation, subject to an annual limit of $60,000 for 2023, with an additional $1,000 catch-up contribution for those aged 50 or older.

- **Employer Contributions:** Employer contributions can be made in the form of a profit-sharing plan or a nonelective contribution plan.

- **Eligibility:** Employers can make contributions to SIMPLE IRAs for most employees, including independent contractors and common-law employees.

- **Withdrawals:** Withdrawals are generally subject to a 10% early withdrawal penalty, and distributions may be taxable. Withdrawals are permitted after age 59 1/2, and distributions are subject to 10% additional tax if made before age 59.

### Retirement Plan Comparison

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Key Benefits</th>
<th>Contribution Limits</th>
<th>Eligibility</th>
<th>Withdrawal Rules</th>
<th>Rollovers</th>
</tr>
</thead>
<tbody>
<tr>
<td>401(k) Plan</td>
<td>Easy to set up and maintain</td>
<td>Age 50 or older—up to $65,500 in 2023, plus $1,500 catch-up for those aged 50 or older</td>
<td>Most full-time employees</td>
<td>Withdrawals before age 59 1/2 are generally subject to a 10% early withdrawal penalty and distributions may be taxable. Withdrawals are permitted after age 59 1/2, either through age 70 1/2 or following the later of the year of retirement or attainment of age 70</td>
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</tr>
<tr>
<td>SEP Plan</td>
<td>Easy to set up and maintain</td>
<td>Employers can contribute up to 25% of employee compensation, subject to an annual limit of $61,000 in 2023, with an additional $1,000 catch-up for those aged 50 or older</td>
<td>Employers and self-employed individuals with fewer than 100 employees</td>
<td>Withdrawals before age 59 1/2 are generally subject to a 10% early withdrawal penalty and distributions may be taxable. Withdrawals are permitted after age 59 1/2, either through age 70 1/2 or following the later of the year of retirement or attainment of age 70</td>
<td>Distributions from a SEP-IRA can be rolled over to another qualified plan that accepts such rollovers or to an eligible retirement plan.</td>
</tr>
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<td>SIMPLE IRA Plan</td>
<td>Easy to set up and maintain</td>
<td>Employers can contribute up to 25% of employee compensation, subject to an annual limit of $60,000 in 2023, with an additional $1,000 catch-up for those aged 50 or older</td>
<td>Most small businesses and self-employed individuals</td>
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