

2023 Retirement Plans Overview

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Retirement Plans Overview

TYPE OF PLAN/DEFINITION	ELIGIBILITY REQUIREMENTS	MAXIMUM DEDUCTIBLE CONTRIBUTION	ESTABLISHMENT/ CONTRIBUTION DEADLINE	DISTRIBUTIONS (EARLY WITHDRAWALS)	REQUIRED MINIMUM DISTRIBUTIONS (RMDs)	APPROPRIATE FOR
SEP-IRA A simplified employee pension (SEP-IRA) is a plan through which employer contributions are made to IRAs established and maintained by eligible employees. These tax-deductible employer contributions must be allocated by the employer on a nondiscriminatory basis. SARSEPs, a form of SEP-IRA established prior to 1997, allow employees to contribute up to \$22,500 on a salary reduction basis. New SARSEP plans are no longer allowed to be established.	Must include employees who: <ul style="list-style-type: none"> • Are at least 21 years of age • Earn at least \$750 (for 2023) • Worked three out of the preceding five years for the employer Employer may set less restrictive eligibility requirements.	Total contributions for each eligible employee may not exceed the lesser of 25% ¹ of compensation ² or \$66,000. For SARSEPs, the salary reduction amount cannot exceed \$22,500. This limitation will be subject to cost-of-living adjustments. New SARSEP plans are no longer allowed to be established. Elective deferrals under a SARSEP will count toward the 25% deduction limit. For individuals age 50 or older, an additional “catch-up” contribution of \$7,500 is allowed for SARSEPs. All contributions are immediately 100% vested.	Must be established by and contributions made by due date of employer’s tax return, including extensions.	10% penalty applies to withdrawals before age 59½ unless certain exceptions apply (see Traditional IRA Distributions on reverse side).	RMD commences after attaining age 72 and is based on life expectancy.	Business owner that wants plan with only employer contributions and is willing to make the same percentage contribution to employees as to owner. (No IRS Form 5500 reporting required.)
SIMPLE IRA A savings incentive match plan for employees of small-business owners, SIMPLE IRA is an IRA-based plan that allows for employee and employer contributions. All employers with up to 100 employees (who received at least \$5,000 in compensation the prior year) may establish a SIMPLE IRA. However, it must be the only plan maintained by the employer.	Must include employees who: <ul style="list-style-type: none"> • Earned at least \$5,000 during any two preceding years • Can reasonably expect to earn at least \$5,000 in current year Employer may set less restrictive eligibility requirements.	Employer <i>must</i> contribute either: <ul style="list-style-type: none"> • A salary deferral match that is dollar-for-dollar up to 3% of compensation (may be lowered to 1% in any two out of five years) or • A 2% non-elective contribution of first \$305,000 of compensation for each eligible employee No discrimination or top-heavy testing. Contributions are immediately 100% vested. Employee may defer up to \$15,500. Employer contributions are mandatory. For individuals age 50 or older, an additional “catch-up” contribution of \$3,500 is allowed.	Must be established on a calendar-year basis by Oct. 1 of applicable tax year. <ul style="list-style-type: none"> • Deferrals are to be deposited as soon as they can reasonably be segregated from the employer’s general assets, but no later than the 30th day of the month following the month of the deferral. • Employer contributions must be made by business’s tax return due date, including extensions. 	Withdrawals made during first two years of participation are subject to a 25% penalty unless certain exceptions apply (see Traditional IRA Distributions on reverse side); thereafter, distribution restrictions and penalties same as IRA.	RMD commences after attaining age 72 and is based on life expectancy.	Business owner interested in low-cost plan who can afford a mandatory contribution annually and who wishes to maximize their own contribution within limits without the worry of passing nondiscrimination or top-heavy tests. (No IRS Form 5500 reporting required.)
Profit Sharing (Defined Contribution) Plan permits only employer contributions. The formula for determining the employer’s contribution amount may be discretionary. Nondiscrimination and coverage tests apply. (A Money Purchase Pension Plan is a Defined Contribution Plan similar to a Profit Sharing Plan but mandates a fixed contribution formula and does not allow in-service withdrawals.)	Must include employees who: <ul style="list-style-type: none"> • Are at least 21 years of age • Have completed two years of service (at least 1,000 hours each year) Employer may set less restrictive eligibility requirements.	Employer deduction cannot exceed 25% ¹ of total covered compensation ² up to \$66,000 per individual. Contributions may have a vesting schedule provided the number of years of service for eligibility does not exceed one.	Must be established by tax year-end and contributions made by business’s tax return due date, including extensions.	10% penalty applies to withdrawals before age 59½ unless certain exceptions apply. Hardship, in-service withdrawals and loans may be available.	RMD commences following attainment of age 72 or the year the employee (other than a 5% owner) retires, whichever is later, and is based on life expectancy.	Profit Sharing plan is best suited for a relatively new company, a cyclical company or a company with high turnover.
Individual 401(k) (Defined Contribution) This type of plan is designed for an “owner-only” business and the owner’s immediate family members (i.e., spouse, parent, children or grandchildren). Combines a salary deferral arrangement with a profit sharing plan. If employees are added, the plan becomes subject to nondiscrimination testing, which adds cost (see 401(k) Profit Sharing).	Must include owners/employees who: <ul style="list-style-type: none"> • Are at least 21 years of age • Have completed two years of service for profit-sharing contribution or one year for salary deferral (at least 1,000 hours each year) Employer may set less restrictive eligibility requirements.	The maximum tax-deductible employer contribution is 25% ¹ of compensation. ² The owner/employee can also defer up to \$22,500 from their salary. Overall maximum contribution per owner/ employee is the lesser of 100% of compensation ² or \$66,000. In addition, if the owner/employee is age 50 or older, a “catch-up” contribution of \$7,500 is allowed.	Must be established by tax year-end. <ul style="list-style-type: none"> • Deferrals are to be deposited as soon as they can be reasonably segregated from the employer’s general assets, but no later than the 15th business day of the month following the month of deferral. • Employer profit sharing contributions and match must be made by the employer’s tax-filing deadline, including extensions. 	10% penalty applies to withdrawals before age 59½ unless certain exceptions apply. Hardship, in-service withdrawals and loans may be available.	RMD commences following attainment of age 72 or the year the employee (other than a 5% owner) retires, whichever is later, and is based on life expectancy.	Designed for incorporated as well as unincorporated business (i.e., corporations, partnerships, sole proprietorships and nonprofit entities) that want to maximize contributions. Not designed for employers who have or anticipate having eligible employees. No top-heavy or nondiscrimination testing is required.
401(k) Profit Sharing (Defined Contribution) Plan permits a salary deferral arrangement as part of an employer’s profit sharing or stock bonus plan. The arrangement may also provide an employer match to those who make salary deferral contributions. Special nondiscrimination and coverage tests apply.	Must include employees who: <ul style="list-style-type: none"> • Are at least 21 years of age • Have completed two years of service for profit-sharing contributions or one year for salary deferral (at least 1,000 hours each year) Employer may set less restrictive eligibility requirements.	The maximum tax-deductible employer contribution is 25% ¹ of compensation. ² Employee salary deferral limit is \$22,500. Overall maximum contribution per eligible employee is the lesser of 100% of compensation ² or \$66,000. In addition, if the employee is age 50 or older, a “catch-up” contribution of \$7,500 is allowed. Employer contributions may have a vesting schedule provided the eligibility does not exceed one year.	Must be established by tax year-end. <ul style="list-style-type: none"> • Deferrals are to be deposited as soon as they can be reasonably segregated from the employer’s general assets, but no later than the 15th business day of the month following the month of deferral. • Employer profit-sharing contributions and match must be made by the employer’s tax-filing deadline, including extensions. 	10% penalty applies to withdrawals before age 59½ unless certain exceptions apply. Hardship, in-service withdrawals and loans may be available.	RMD commences following attainment of age 72 or the year the employee (other than a 5% owner) retires, whichever is later, and is based on life expectancy.	Best suited for employer who wants to minimize employer contributions. Usually suited for larger companies because of cost of administering the plan and to encourage employee savings. Safe Harbor 401(k) plans are favorable for top-heavy plans or plans that have difficulty in passing nondiscrimination tests.
Roth 401(k) (Defined Contribution) Optional after-tax salary deferral contribution to a 401(k) Profit Sharing plan. Earnings are tax- and penalty-free for qualified distributions.	Must include employees who: <ul style="list-style-type: none"> • Are at least 21 years of age • Have completed one year of service (at least 1,000 hours) Employer may set less restrictive eligibility requirements.	Contribution limits are the same as 401(k). Roth 401(k) contributions are not deductible.	Must be established by tax year-end. <ul style="list-style-type: none"> • Deferrals are to be deposited as soon as they can be reasonably segregated from the employer’s general assets, but no later than the 15th business day of the month following the month of deferral. • Employer profit-sharing contributions and match must be made by the employer’s tax-filing deadline, including extensions. 	10% penalty applies to withdrawals before age 59½ unless it is qualified (five years after first distribution and, after age 59½, death or disability). Hardship, in-service withdrawals and loans may be available.	RMD commences following attainment of age 72 or the year the employee (other than a 5% owner) retires, whichever is later, and is based on life expectancy.	Best suited for employers who would like to offer an additional “after-tax” contribution source. Best for plan participants who anticipate being in a higher tax bracket at retirement or owners/employees who earn so much that they don’t qualify for a Roth IRA.
Defined Benefit (Benefit Formula) Plan permits only employer contributions. Plan is established so that the amount of the employee’s retirement income is fixed, defining the benefit in advance by the plan’s benefit formula. The employer’s contribution must be determined actuarially and be sufficient to enable the fund to meet its liabilities as they come due in future years.	Must include employees who: <ul style="list-style-type: none"> • Are at least 21 years of age • Have completed two years of service (at least 1,000 hours each year) Employer may set less restrictive eligibility requirements.	Amount needed to fund monthly benefit at normal retirement age. Annual benefit from the plan may not exceed the lesser of 100% of the participant’s average compensation ² or \$265,000. The limitation will be subject to cost-of-living adjustments. May have a vesting schedule provided the eligibility does not exceed one year.	Must be established by tax year-end and contributions made by business’s tax return due date, including extensions.	10% penalty applies to withdrawals before age 59½ unless certain exceptions apply. No preretirement withdrawals.	RMD commences following attainment of age 72 or the year the employee (other than a 5% owner) retires, whichever is later, and is based on life expectancy. However, requirement normally satisfied by payment of the participant’s annual benefit, starting at normal retirement age.	Suited for established companies with consistent profits. Benefits companies with key employees over age 50. “Cash Balance Formula” plans provide a hypothetical account balance and are appropriate for employers with a younger or mobile workforce.
403(b) Tax-sheltered retirement program established by Code Section 501(c)(3) tax-exempt employers, including churches and public education organizations for their employees. Plan may be funded on a nondiscriminatory basis through salary reduction or deferral of salary increase or employer contributions and must invest in annuities or regulated investment companies (e.g., mutual funds).	Universal eligibility for salary deferrals (no age or service requirements) typically includes all employees who are willing to contribute at least \$200 annually. If ERISA plan document is used, then employer contributions must include employees who: <ul style="list-style-type: none"> • Are at least 21 years of age • Have completed two years of service (at least 1,000 hours each year) 	The maximum salary deferral limit is the lesser of 100% of compensation, up to \$22,500 (reduced by elective 401(k), SARSEP and SIMPLE IRA contributions, if applicable). In addition, if the employee is age 50 or older, a “catch-up” contribution of \$7,500 is allowed.	Establishment deadline does not apply. Deferrals are to be deposited as soon as they can reasonably be segregated from the employer’s general assets, but no later than the 15th business day of the month following the month of deferral.	10% penalty applies to withdrawals before age 59½ unless it is qualified (five years after first contribution and after age 59½, death or disability). Hardship, in-service withdrawals and loans may be available.	RMD commences following attainment of age 72 or the year the employee (other than a 5% owner) retires, whichever is later, and is based on life expectancy. For balances prior to 1987, distributions must begin in the year the employee attains age 75.	Low-cost plan for employees of schools, universities, and tax-exempt code section 501(c)(3) organizations (e.g., charities, churches, some hospitals and other health-related organizations).

¹For self-employed individuals, the maximum contribution is 20% of compensation (net profit minus one-half of self-employment tax).

²For 2023, contributions are based on the first \$330,000 of each participant’s compensation.

IRA Overview

TYPE OF PLAN/DEFINITION	ELIGIBILITY REQUIREMENTS	TYPE OF TAXPAYER	MAXIMUM DEDUCTIBLE CONTRIBUTION	ESTABLISHMENT/ CONTRIBUTION DEADLINE	DISTRIBUTIONS (EARLY WITHDRAWALS)	REQUIRED MINIMUM DISTRIBUTIONS (RMDs)	APPROPRIATE FOR
Traditional IRA Individual Retirement Account – Individual retirement savings arrangements to which contributions are made by an individual. The deductibility of the IRA contribution is dependent upon the individual's income and participation in an employer-sponsored retirement plan.	Individual must have earned income.	Individual	If not covered by employer plan, lesser of: 100% of compensation or \$6,500 (\$13,000 for a couple filing jointly). If individual participates in employer plan, above is reduced and then eliminated based on Modified Adjusted Growth Income (MAGI) limits (See Guide to IRA Contributions). Contributions are aggregated with amounts contributed to a Roth IRA. If age 50 or older, individuals are allowed an additional "catch-up" contribution of \$1,000.	Must be established and contributions made by tax-filing date (April 15), no extensions.	10% penalty applies to withdrawals before age 59½ unless an exception applies: death; disability; substantially equal periodic payments; qualified education expenses; first-time home-buyer expenses (\$10,000 lifetime limit); IRS levy; unreimbursed medical expenses more than 10% of MAGI ² ; or payment of health insurance premiums for unemployed individuals, subject to restrictions.	RMD commences after attaining age 72 and is based on life expectancy.	Individuals with earned income who qualify to make deductible or non-deductible contributions.
Rollover IRA This IRA is set up to receive a qualifying rollover distribution from an employer-sponsored retirement plan.	Recipient of qualifying rollover distribution from an employer-sponsored retirement plan.	Individual	No limit regarding dollar amount or age of individual. Entire distribution may be rolled over except hardship distributions and required minimum distributions. Partial rollovers of the amount distributed are permitted. However, the amount not rolled over is subject to tax, a 10% penalty if under age 59½ and a 20% mandatory withholding requirement.	No later than 60 days after receipt of each rollover amount. The IRS may waive the 60-day rule where it would be against equity or good conscience not to do so.	10% penalty applies to withdrawals before age 59½ unless an exception applies: death; disability; substantially equal periodic payments; qualified education expenses; first-time home-buyer expenses (\$10,000 lifetime limit); IRS levy; unreimbursed medical expenses in excess of 10% of MAGI ² ; or payment of health insurance premiums for unemployed individuals, subject to restrictions.	RMD commences after attaining age 72 and is based on life expectancy.	Individuals who receive an eligible distribution from a qualified plan and wish to gain control and flexibility with their retirement savings.
Roth IRA Created by the Taxpayer Relief Act of 1997 to receive non-deductible contributions. Contributions are always freely accessible. Earnings are tax- and penalty-free for a qualified distribution.	Individual must have earned income, MAGI within limits. See chart for income limits.	Individual	Contributions are limited to \$6,500 (\$13,000 for a couple filing jointly) and aggregated with amount contributed to Traditional IRA for a specific tax year. Contributions are not deductible. If age 50 or older, individuals are allowed an additional "catch-up" contribution of \$1,000.	Must be established and contributions made by tax-filing date (April 15), no extensions.	Earnings withdrawn for non-qualified reasons are taxable and 10% early distribution penalty applies to withdrawals before age 59½. Contributions are not taxed when withdrawn and may be accessed at any time.	No RMD at age 72 for Roth IRA owner. Earnings withdrawn after five years for qualified reasons are not taxable. Qualified reasons include attainment of age 59½; death; disability; or first-time home purchase (\$10,000 lifetime limit).	Qualified individuals who are not able to make a deductible contribution to a Traditional IRA account or who desire tax-free retirement savings.
Roth Conversion IRA Traditional, Rollover, SEP or SIMPLE IRAs ¹ may be converted to a Roth IRA.	None	Individual	No limit regarding dollar amount or age of individual. Partial and total conversions are allowed. Required minimum distributions are not allowed to be converted.	Conversion from Traditional to Roth IRA may occur at any time within a calendar year. (See Guide to IRA Contributions.)	Same as Roth IRA, above. Converted amounts withdrawn during the first five years may be penalized.	Same as Roth IRA, above.	Qualified individuals who wish to incur the tax bill now to receive tax-free distributions in the future.

¹After a two-year period, beginning on the date in which you first participated in your employer's SIMPLE plan, amounts in a SIMPLE IRA can be rolled over or transferred to another retirement plan without being subject to early distribution penalties.

²If client is age 65 or greater, the percentage is 7.5%.

Guide to IRA Contributions

Traditional IRA Deductibility¹

IF YOUR TAX FILING STATUS IS...	AND YOUR MODIFIED ADJUSTED GROSS INCOME (MAGI) ² IS...	THEN...
Single tax filer, active participant in employer-sponsored retirement plan	\$73,000 or less More than \$73,000 but less than \$83,000 \$83,000 or more	Full deduction Partial deduction No deduction
Married, filing joint tax return; active participant	\$116,000 or less More than \$116,000 but less than \$136,000 \$136,000 or more	Full deduction Partial deduction No deduction
Married, filing separately ³	\$0 Less than \$10,000 More than \$10,000	Full deduction Partial deduction No deduction
Married, filing joint tax return; not active participant but spouse is	\$218,000 or less More than \$218,000 but less than \$228,000 \$228,000 or more	Full deduction Partial deduction No deduction
Single or married, filing joint tax return; not active participant; spouse is not active participant	Any income level	Full deduction

Roth IRA Contribution Eligibility

IF YOUR TAX FILING STATUS IS...	AND YOUR MAGI ² IS...	THEN...
Single tax filer	Less than \$138,000 More than \$138,000 but less than \$153,000 \$153,000 or more	Full contribution Partial contribution No contribution
Married, filing joint tax return	Less than \$218,000 More than \$218,000 but less than \$228,000 \$228,000 or more	Full contribution Partial contribution No contribution
Married, filing separately ³	\$0 More than \$0 but less than \$10,000 \$10,000 or more	Full contribution Partial contribution No contribution

Roth IRA Conversion Eligibility

IF YOUR TAX FILING STATUS IS...		THEN...
Single or married, filing joint tax return	No income restriction.	Eligible
Married, filing separately ³		Eligible

Tax Credit for Traditional, Roth IRA or Salary Deferral Retirement Plan Contributions⁴

IF YOUR TAX FILING STATUS IS...	AND YOUR MAGI ² IS...	THEN...
Married, filing joint tax return	More than \$1 but not more than \$43,500 Between \$43,501 and \$47,500 Between \$47,501 and \$73,000 More than \$73,000	Receive 50% credit Receive 20% credit Receive 10% credit Receive no credit
Head of household	More than \$1 but not more than \$32,625 Between \$32,626 and \$35,625 Between \$35,626 and \$54,750 More than \$54,750	Receive 50% credit Receive 20% credit Receive 10% credit Receive no credit
All other cases	More than \$1 but not more than \$21,750 Between \$21,751 and \$23,750 Between \$23,751 and \$36,500 More than \$36,500	Receive 50% credit Receive 20% credit Receive 10% credit Receive no credit

¹ You can still contribute to a Traditional IRA, even if the contribution is nondeductible. If you make a nondeductible contribution to a Traditional IRA, you will need to file IRS Form 8606 for every year one is made.

² Modified Adjusted Gross Income (MAGI) is determined before reduction for any deductible Traditional IRA contribution. MAGI includes foreign earned income and income from Guam, American Samoa, Northern Mariana Islands and Puerto Rico.

³ If you lived with your spouse at any time during the year.

⁴ For taxable years beginning on or after January 1, 2002, you may be eligible to receive a tax credit for your Traditional, Roth IRA or salary deferral retirement plan contributions. The credit is based on your income and will range from 0 to 50% of eligible contributions. This credit will be allowed in addition to any deduction that may apply, and may not exceed \$1,000 in a given year. In order to determine your tax credit, multiply the applicable percentage from the chart above by the amount of your contributions that do not exceed \$2,000.

You may be eligible for this tax credit if you are:

- Age 18 or older at the close of the taxable year,
- Not a dependent student, and
- Not a full-time student.

This material represents general information about retirement plans and is not intended as a legal reference. Clients should consult with an appropriate tax professional prior to instituting any retirement plan.