Invesco

Business owner guide

Retirement Plans for Small Businesses

Contents

Why consider a retirement plan?

As the cost-conscious owner of a small business, you may think a retirement plan is a luxury. Actually, it's a benefit you and your employees can't afford to pass up.

Funded in whole or in part by the employee and/or the employer, a small business retirement plan can help to:

1. Reduce your business taxes.
2. Build vital personal retirement savings.
3. Provide an attractive benefit to recruit, reward, and retain valuable employees.

Retirement plans are available for businesses of all sizes, including several low-cost, convenient plans for partnerships, corporations, businesses with multiple employees, and one-person self-employed business owners. Plan options include:

- SEP
- SIMPLE IRA
- Solo 401(k)
- Safe harbor 401(k)
- Profit-sharing
- New comparability
- New comparability with a safe harbor 401(k)
- Age-weighted

For more information regarding any of the plans featured, please contact your financial professional.

The information in this guide is provided for a general understanding of the different types of plans and their features. Any tax information presented is based on federal income tax laws, which may differ from state and local income tax laws. All rules related to the establishment or maintenance of each plan type are not included in this summary. Additional rules may apply if an employer maintains multiple plans. Contact your financial or tax professional for more complete information on any plan and its application to your particular situation. This guide is not intended as tax advice.

SECURE 2.0

Workplace retirement plans play a significant role in Americans' financial security in retirement. To help encourage greater adoption and plan participation, the Setting Every Community Up for Retirement Enhancement Act of 2022 (SECURE 2.0) became law in 2022. Here are some of the provisions affecting retirement plans that you should be aware of.

Start-up costs

Small employers can claim a tax credit to offset some or all the costs of establishing and administering a qualified retirement plan, SEP or SIMPLE IRA plan, including the cost of educating employees about the plan. To qualify for this tax credit, a business must:

- Have no more than 100 employees who received at least $5,000 from the business in the preceding year,
- Have at least one non-highly compensated employee participating in the plan, and
- Not have maintained another plan during the three years preceding the first year the business is eligible for the credit.

A $500–$5,000 credit is available for each of the first three years of the plan and may be claimed for expenses incurred in the year before the year the plan is in effect.

An employer with 1 – 50 employees may claim a credit for 100% of plan costs incurred or paid during a tax year, up to the greater of:

- $500, or the lesser of:
  - $250 multiplied by the number of non-highly compensated employees eligible to participate in the plan, or
  - $5,000.

An employer with 51 – 100 employees may claim a credit for 50% of plan start-up and education costs incurred or paid during a tax year, subject to the limits listed above.

Plan contributions

Small employers with a defined contribution plan, SEP or SIMPLE IRA plan may claim a tax credit for a percentage of plan contributions made by the business to the plan accounts of employees whose compensation did not exceed $100,000 for tax years after December 31, 2022 with possible cost-of-living adjustments each year thereafter.[1] An employer with 1 – 50 employees may claim 100% of the plan contributions (up to $1,000 per employee) for the first two years, 75% of contributions in year three, 50% of contributions in year four, and 25% of contributions in year five. The credit is phased out for employers with 51 – 100 employees.

Roth updates

Required Minimum Distributions: For Roth 401(k)/Roth 403(b)/Roth 457 contributions are no longer required.

Roth employer contributions:[2] In addition to participant salary deferrals, employers may elect to offer employer matching, non-elective, or profit-sharing contributions as Roth too. This optional provision allows plan participants added flexibility to receive some or all of their employer contributions as Roth for greater access to potential tax-free income when qualifying events are reached. The following are some key points to consider:

- 100% vesting required.
- Requires participants to pay taxes. Income taxation applies in the year the money is allocated to a participant's account — participants get a Form 1099-R for designated Roth employer contributions for that tax year.
- The Roth five-year holding period rule applies.

Higher catch-up contributions at age 60 – 63: Beginning January 1, 2025, participants may contribute $11,250 in catch-up contributions. Contributions may begin January 1 of the year the participant turns age 60 and must cease by December 31 of the year they turn age 63.

Roth catch-up for higher earners: Effective January 1, 2026, participants who are at least age 50 and have earned at least $145,000 or more in W2 wages in 2025 will be required to make their catch-up dollars in a Roth account. Does not apply to Federal Insurance Contributions Act (FICA) wage earners.[3]

Automatic enrollment

Small employers may claim a $500 tax credit for each of the first three years they incorporate an eligible automatic contribution arrangement (EACA) into their qualified retirement plan or SIMPLE IRA plan. The credit is available for new plans or existing plans that adopt the automatic enrollment feature.

Automatic enrollment mandate for new plans

All new 401(k) and 403(b) plans established after December 28, 2022, are required to incorporate an eligible automatic contribution arrangement with automatic escalation, effective for plan years beginning on or after January 1, 2025. The initial automatic enrollment deferral rate must be at least 3% but not more than 10%. Each year thereafter the deferral rate must be automatically increased by 1% until it reaches at least 10%, but not more than 15%. Plans established by a new business in existence for less than three years, with 10 or fewer employees, as well as church and governmental plans, are exempt from this requirement.

Roth contributions

This is another way to contribute to a retirement account. Instead of taking the tax benefit now by reducing your taxable income via pre-tax contributions, participants can opt to contribute with taxed dollars (Roth) for access to tax free-earnings.

To qualify for tax-free earnings, the participant must meet two conditions:

- Have maintained the account for at least 5 years and,
- Have a triggering event: age 59½, disability, or death.

Contributions can be a combination of all, or partial of pre-tax or Roth dollars.

Check with your plan provider if the Roth salary deferral and/or employer contribution feature is available.

1. Most current information available.
2. Check with your plan provider if this feature is available. This feature is not currently available for Invesco direct held retirement programs.
3. The Federal Insurance Contributions Act (FICA) of 1935 established a payroll tax on U.S. wage earners' paychecks and called for matching contributions from employers. Source: Internal Revenue Service, "Lesson 4: The Social Security Act of 1935."

Plans at a glance

Key features	SIMPLE IRA	Safe harbor 401(k)	Age-weighted profit-sharing
Who can establish			
Sole proprietor, partnerships, S corps., C corps., and nonprofit groups	■	■	■
Government agencies	■		■
Cannot maintain any other plan	■		
*Planning note: Beginning in 2024, all part-time employees (Generally – between 500 and 999 hours for 2 consecutive years) must be eligible to contribute salary deferrals		■	■
Key features			
Employee pretax salary deferrals	■	■	■
Roth after-tax salary deferrals	■	■	■
Employer Roth contributions	■	■	■
Loan availabilty		■	■
Minimal paperwork and reporting	■		
Full-service recordkeeping		■	■
Maximum employee contributions			
Participant contribution maximum (under age 50)	$16,500[3]	$23,500	$23,500
Participant catch-up contribution[1,2] at age 50 – 59, 64+	$3,500[3]	$7,500	$7,500
Participant catch-up contribution age 60 – 63[1,4]	$5,250[3]	$11,250	$11,250
Employer contributions			
Contributions can vary depending on cash flow			■
Cannot exceed 25% of eligible employee compensation		■	■
Overall maximum		$70,000	$70,000
Maximum compensation	$350,000[5]	$350,000	$350,000

1. The catch-up contributions are in addition to the participant contribution amounts indicated.
2. Contributions can begin, January 1 of the year the participant turns age 50.
3. Contributions for this plan varies depending on the number of employees employed by the business. Please refer to SIMPLE IRA plan on page 7 for additional information.
4. Beginning January 1, 2025, participants ages 60-63 may make a higher catch-up contribution up to the amount indicated. Contributions may begin January 1 of the year the participant turns 60 and must cease by December 31 of the year they turn 63.
5. The compensation maximum applies only to nonelective contributions. There is no compensation limit for matching contributions.

This information is not intended as tax advice. Investors should consult a tax advisor.

SEP IRA plan

The Simplified Employee Pension (SEP) IRA is a low-cost retirement plan designed for small businesses and the self-employed. This is a discretionary employer only funded plan with minimal administration.

Establishing a SEP plan requires setting up an IRA for each eligible employee. You make contributions directly to your employees' IRAs, and you have the flexibility to control the frequency and amount.

2025 plan features

Flexible contribution limits	You decide the percentage you wish to contribute each year: up to 25% of compensation or $70,000, whichever is less.[1]
Cost flexibility	There are no requirements for the frequency or amount of contributions. You are obligated to contribute only to eligible employees in a year you choose to make a plan contribution.
Roth contribution	Optional plan feature. Eligible participants can elect to receive their contribution as either pre-tax and or Roth (after-tax).[2]
Social Security integration	Additional contributions are permitted for employers or employees who earn more than the taxable wage base of $176,100.
Administration	Easy to administer; there are no required filings with the IRS, employee elective deferrals, or nondiscrimination testing.
Plan establishment date	Can be set up for a year as late as the due date (including extensions) of the business's income tax return for that year.
Vesting	Employees are 100% vested immediately.
Employee eligibility	You contribute to eligible employees[3] who are 21 or older, have worked for you during at least three of the preceding five years, and earned at least $750 during the year.[4]

The hypothetical example shows how a SEP plan could help you save $70,000 towards your retirement and contribute to your employees' retirement accounts based on a 20% contribution rate.

Tax benefits of a SEP plan

Owner/Employee	**Compensation ($)**	**Employer 20% SEP contribution[5] ($)**
Owner	350,000	70,000
Employee A	25,000	5,000
Employee B	20,000	4,000
Employee C	15,000	3,000
Employee D	12,000	2,400
Total employer contribution		84,400
Less corporate tax savings on total contribution at 21%		(17,724)
Cost to company		66,676

Owner's benefit — SEP contribution	70,000
Owner's share of employer contributions	82.94%

For illustrative purposes only.

1. Maximum considered compensation is $350,000 for 2025, indexed for inflation.
2. Check with plan provider if Roth feature is available. Not available in the Invesco SEP IRA program.
3. Nonresident aliens and employees subject to collective bargaining agreements may be excluded. You may designate less restrictive requirements based on age or service at your discretion.
4. Minimum compensation for 2025, indexed for inflation.
5. The maximum percentage is actually 25%; however, in this case, since the owner earns $350,000, the plan can use 20% and still have the owner receive the maximum contribution amount. The pro-rata method is used to calculate the employer contribution in this example.

This hypothetical illustration is based on tax laws and regulations in effect for tax year 2025 and is not intended as tax advice. Tax rates and brackets are subject to change. Investors should consult a tax advisor. Changes in tax rates and tax treatment of investment earnings may affect the comparative results shown.

SIMPLE IRA plan

The Savings Incentive Match Plan for Employees (SIMPLE) IRA may be the ideal choice for small business owners with up to 100 employees and are seeking a plan similar to a 401(k). Employers are required to contribute to the plan, but the contribution flexibility makes it appealing to many small business owners. The employer may not maintain any other retirement plans. Refer to the **Plans at a glance** on page 5 for contribution limits.

2025 plan features

Employer contributions	You may choose from the following required employer contribution options: • **Match.** You contribute dollar for dollar for participating employee up to 3% of the compensation. In two years of any five-year period, you can elect to reduce the dollar-for-dollar contribution to as low as 1% of compensation. There is no compensation cap on matching contributions. • **Nonelective.** You contribute 2% of each eligible employee's compensation (up to a maximum contribution of $70,000 per employee), whether or not an employee elects to make deferrals. Compensation is limited to $350,000 for nonelective contributions.
Funding the plan	Contributions permitted under this plan type varies if the employer has 25 and few employees or 26 and greater employees. Contributions can be chosen as pre-tax or Roth (after-tax). See the chart below for additional details.
Roth contributions	Optional plan features that can be selected for participant salary deferrals and employer contributions.[1]
Administration	Unlike a 401(k), there are no required Form 5500 filings or nondiscrimination tests (designed to limit contributions made on behalf of higher-paid employees). Annual notice required to eligible employees at least 60 days before the end of the calendar year. You will be required to transmit deferral information with each payroll.
Vesting	Employees are 100% vested immediately.
Employee eligibility	Employees[2] who have earned a minimum of $5,000 during any two preceding years and are expected to earn at least $5,000 in the current year must be eligible. At your discretion, you may include others.

Savings Incentive Match Plan for Employees (SIMPLE)

25 and fewer employees	**Contribution maximums ($)**
Participant contribution maximum	17,600
Participant catch-up contribution at age 50[3,4]	3,850
Participant catch-up contribution at 60 – 63[3,5]	5,250
Employer contribution: match or non-elective	Mandatory
26 and greater employees	
Participant contribution maximum	16,500
Participant catch-up contribution at age 50[3,4]	3,500
Participant catch-up contribution at age 60 – 63[4,5]	5,250
Employer contribution: match or non-elective	Mandatory
Special Contributions	
Increased participant deferral contribution (permitted if match is 4% or non-elective 3%)	Conditional 17,600
Enhanced participant catch-up contribution at age 50 (permitted if match is 4% or non-elective 3%)[3,4]	Conditional 3,850
Additional employer contribution[6]	Optional 5,100

1. Roth employer contributions is not available in the Invesco SIMPLE IRA program.
2. Nonresident aliens and employees subject to collective bargaining agreements may be excluded. You may designate less restrictive eligibility requirements at your discretion.
3. The catch-up contribution amount indicated is in addition to the contribution maximum indicated and begins January 1st of catch-up age.
4. Contributions can begin, January 1 of the year the participants turns age 50.
5. Beginning January 1, 2025, participants ages 60 – 63 may make a higher catch-up contribution. Contributions may begin January 1 of the year the participant turns 60 and must cease by December 31 of the year they turn 63.
6. Additional optional employer contribution up to 10% of compensation of each eligible employee not to exceed $5,100. Check with your service provider if this option is available.

Tax benefits of a SIMPLE IRA — 3% match

Owner/Employee	Compensation ($)	Deferral ($)	Match ($)	Total ($)
Owner (age 50+)	400,000	17,600	12,000	29,600
Employee A	45,000	1,800	1,350	3,150
Employee B	35,000	1,400	1,050	2,450
Employee C	25,000	1,250	750	2,000
Employee D	20,000	850	600	1,450
Employee E	18,000	700	540	1,240
Total employer contribution			16,290	
Less corporate tax savings on total employer contribution at 21%			(3,421)	
Cost to company			12,869	
Owner’s tax savings on deferral at 21%			2,625	
Owner’s allocation of employer contributions			12,000	
Owner’s benefit — tax savings and match			14,625	
Less cost to company			(12,869)	
Owner’s savings (cost)			**1,756**	

For illustrative purposes only.

This hypothetical illustration is based on tax laws and regulations in effect for tax year 2025 and is not intended as tax advice. Tax rates and brackets are subject to change. Investors should consult a tax advisor. Changes in tax rates and tax treatment of investment earnings may affect the comparative results shown.

Solo 401(k) plan

A Solo 401(k) is a profit-sharing plan with a 401(k) feature designed for sole proprietorships and corporations with no employees other than the owner(s) and their spouse(s). The plan does not require nondiscrimination or top-heavy testing.

2025 plan features

Higher contribution limits	A combination of employee salary deferrals and employer profit-sharing contributions are permitted in this plan. The combined maximum permitted is $70,000,[1] if under age 50. Catch-up contributions are in addition. Refer to the **Plans at a glance** on page 5 for contribution limits.
Roth contributions[2]	Optional plan features that can be selected for participant salary deferrals and employer contributions.
Flexibility	Contributions — both salary deferrals and profit-sharing — are discretionary.
Tax benefits	Profit-sharing contributions and traditional salary deferrals are tax-deductible, and earnings accumulate on a tax-deferred basis. Keep in mind, however, that any withdrawals made before age 59½ may be subject to tax penalties.
Vesting	You are 100% vested immediately.
Loans	Loans are available.
Administration	Costs for a Solo 401(k) may be less than a 401(k) for businesses with employees due to reduced administrative requirements. Retirement plan administrative fees are tax-deductible (if not paid from plan assets). IRS Form 5500 is required when plan assets reach $250,000 across all qualified retirement plans. Invesco does not provide IRS Form 5500 support. Please contact your qualified tax professional for assistance.

1. Maximum considered compensation is $350,000 for 2025, indexed for inflation.
2. The Invesco plan only permits employee contributions; Roth employer contribution is not available. Check with your provider if the Roth feature is available.

Safe harbor 401(k) plan

Safe harbor 401(k)s allow business owners to automatically pass nondiscrimination tests. Though originally designed to encourage participation among rank-and-file employees, these tests often reduced — or eliminated — a small business owner's ability to contribute on his own behalf. By including a mandatory employer contribution, the safe harbor 401(k) allows small business owners to sponsor a plan in which all eligible employees may participate — including themselves.

2025 plan features

Maximized deferrals for the business owner	Because the plan is not subject to 401(k) nondiscrimination testing, you may contribute the maximum salary deferral permitted as either pre-tax and/or Roth elective deferrals (after-tax). Refer to the **Plans at a glance** on page 5 for contribution limits.
Employer contributions	You may choose from the following required employer contribution options: • **Match.** You match dollar for dollar for participating employee up to 3% of compensation and 50 cents on the dollar for the next 2% of compensation.[1] • **Nonelective.** A contribution of at least 3% of compensation for all eligible employees is required whether or not they elect to make deferrals.[2]
Loans	Loans are available.
Administration	Employers adopting a safe harbor 401(k) plan with a safe harbor matching contribution must provide a 30-day notice to eligible employees before the beginning of the plan year. Employer contributions are required and must be 100% vested immediately.
Vesting	Employees are 100% vested immediately.
Employee eligibility	Employees who are 21 or older and have completed one year of service are eligible. You may designate less restrictive eligibility requirements at your discretion.

A closer look

With a safe harbor 401(k), employers can bypass the following nondiscrimination tests:

- **Actual deferral percentage (ADP).** Limits the extent to which deferrals from highly compensated employees (HCEs) may exceed those of rank-and-file — or non-highly compensated — employees (NHCEs). Failing this test may result in taxable refunds to highly paid employees.
- **Actual contribution percentage (ACP).** Limits the extent to which employee after-tax contributions and employer matching contributions of HCEs may exceed those of NHCEs. Failing this test may result in the employer being required to make additional contributions on behalf of the NHCEs.
- **Top heavy.** Determines whether more than 60% of the plan's assets belong to key employees — and, if so, requires the owner to make a 3% contribution to each eligible rank-and-file employee.

1. Any other formula used must meet the IRS requirements for safe harbor contributions.
2. Maximum considered compensation is $350,000 for 2025, indexed for inflation.

Increased retirement savings for small business owners

Without a safe harbor 401(k), the owner's maximum contribution is limited by nondiscrimination testing.

By adopting a safe harbor 401(k), the owner can maximize the contributions.

Comparison with and without a safe harbor 401(k)

Business demographics			Without safe harbor 401(k)		With safe harbor 401(k)			
Owner/ Employee	**Age**	**Compensation ($)**	**Deferral ($)**	**Deferral %**	**Deferral ($)**	**Deferral %**	**Safe harbor match ($)**	**Total contribution ($)**
Owner	60	350,000	22,625[1]	4.75	34,750[1]	8.84	14,000	48,750
Employee A	54	120,000	13,200[1]	4.75	31,000[1]	25.42	4,800	35,800
Employee B	42	50,000	2,500	5.00	2,500	5.00	2,000	4,500
Employee C	33	35,000	1,050	3.00	1,050	3.00	1,050	2,100
Employee D	30	35,000	1,050	3.00	1,050	3.00	1,050	2,100
Employee E	26	20,000	0	0.00	0	0.00	0	0

For illustrative purposes only.

1. Deferral amounts include $11,250 catch-up contribution for the owner that's age 60 and $7,500 catch-up contribution for employee A that is age 54.

This hypothetical illustration is based on tax laws and regulations in effect for tax year 2025 and is not intended as tax advice. Investors should consult a tax advisor.

Other profit-sharing plans

A profit-sharing plan is an employer-only funded retirement program that has more flexible options than a SEP IRA plan.

Due to the added flexibility, nondiscrimination testing, top-heavy testing and other retirement plan administrative services are required. Retirement plan administration fees are tax-deductible (if not paid from plan assets).

2025 plan features

Flexible contribution limits	The amount of the profit-sharing contribution can change annually, and you do not have to make a contribution each year. The maximum annual tax-deductible contribution is the lesser of 25% of compensation or $70,000.[1]
Employer contributions	You can choose to allocate contributions in one of two ways: • **Pro rata formula.** The employer allocates the same percentage to each eligible employee. • **Integrated formula.** The contribution is allocated based on the Social Security taxable wage base.[2] Employees earning more than the taxable wage base receive a greater portion of the contribution to compensate for the smaller percentage of Social Security benefits they accrue.
Roth contribution[3]	Optional plan feature. Eligible participants can elect to receive their contribution as either pre-tax and or Roth elective deferrals (after-tax).
Vesting	Vesting schedules are permitted.
Loans	Loans are available.
Employee eligibility	Employees who are 21 or older and have completed one year of service are eligible. You may designate less restrictive eligibility requirements at your discretion.

1. Maximum considered compensation is $350,000 for 2025, Indexed for inflation.
2. Social Security taxable wage base is $176,100 for 2025.
3. Check with your retirement plan provider if feature is available.

New comparability profit-sharing plan

A new comparability plan is a profit-sharing plan with an allocation formula that segments employees into two or more groups and allows for different levels of contributions to each group. The preferred group — which generally includes owners, their family members, and other key employees — receives the bulk of the contribution. The contribution is allocated within each group according to relative age and compensation.

Due to the complexity of the contribution calculation and nondiscrimination testing, retirement plan administrative services are required. Retirement plan administration fees are tax deductible (if not paid from plan assets).

2025 plan features

Higher contribution limits	You decide the amount you wish to contribute each year, up to the lesser of 25% of total eligible compensation or $70,000.[1]
Cost flexibility	You may vary the amount you contribute annually.
Vesting	Vesting schedules are permitted.
Loans	Loans are available.
Optional 401(k) feature	You may amend your plan to allow employees to defer a portion of their pay as pre-tax or Roth elective deferrals (after-tax) — up to maximum amount permitted. Refer to the **Plans at a glance** on page 5 for contribution limits.
Employee eligibility	Employees who are 21 or older and have completed one year of service are eligible. You may designate less restrictive eligibility requirements at your discretion.

1. Maximum considered compensation is $350,000 for 2025, indexed for inflation. Catch-up contributions are in addition if the 401(k) feature is added.

Maximized benefits

As illustrated below, if a small business owner would like to maximize the profit-sharing contribution to the business owners or key employees while minimizing the contributions for other employees, they may be interested in establishing a new comparability plan.

To determine which plan may be right for your company, talk to your financial professional.

New comparability profit-sharing plan illustration

Owner/Employee	Age	Compensation ($)	Contribution ($)	% of income	% of budget
Owner	60	350,000	70,000	20.00	69.31
Employee A	54	120,000	24,000	20.00	23.76
Employee B	42	50,000	2,500	5.00	2.48
Employee C	33	35,000	1,750	5.00	1.73
Employee D	30	35,000	1,750	5.00	1.73
Employee E	26	20,000	1,000	5.00	0.99
Total employer contributions			101,000		
Less corporate tax savings on employer contributions at 21%			(21,210)		
Cost to company			79,790		

Owner's share of employer contributions	70,000
Owner's allocation of employer contributions	69.31%

For illustrative purposes only.

This hypothetical illustration shows employer contributions only and is based on tax laws and regulations in effect for tax year 2025 and is not intended as tax advice. Tax rates and brackets are subject to change. Investors should consult a tax advisor. Changes in tax rates and tax treatment of investment earnings may affect the comparative results shown.

New comparability profit-sharing plan with a safe harbor 401(k)

Adding a new comparability profit-sharing feature to a safe harbor 401(k) allows employees to contribute to their own retirement savings while benefiting from the employer's profit-sharing contribution.[1] The business owner makes a 3% nonelective contribution to all eligible employees, which satisfies both the safe harbor requirement and the new comparability allocation for the nonpreferred group.

2025 plan features

Maximized deferrals for the business owner	You may contribute the maximum in salary deferrals as pre-tax and/or Roth elective deferrals (after tax) because the plan is not subject to 401(k) nondiscrimination testing. Refer to the **Plans at a glance** on page 5 for contribution limits.
New comparability allocation formula	This formula segments employees into two groups — preferred and nonpreferred. The preferred group, which includes the owner, receives the bulk of the profit-sharing contribution.
Loans	Loans are available.
Employee eligibility	Employees who are 21 or older and have completed one year of service are eligible. You may designate less restrictive eligibility requirements at your discretion.

1. The SECURE Act eliminated the requirement for a participant notice if nonelective safe harbor contributions are made. Employers adopting new comparability profit-sharing plans with safe harbor 401(k)s are not required to but may provide a 30-day notice to eligible employees before the beginning of the plan year. Employer safe harbor contributions are required and must be 100% vested immediately.

Maximizing your deferral

Consistently profitable companies with a broad range in ages and salaries between groups of employees, such as owners and rank-and-file employees, may benefit from a new comparability profit-sharing plan with a safe harbor 401(k). As illustrated below, business owners may be able to maximize their salary deferral — and receive a profit-sharing contribution — without making large contributions to employees.

New comparability profit-sharing with a safe harbor 401(k) versus safe harbor 401(k) alone

Business demographics			New comparability with safe harbor 401(k)				Safe harbor 401(k)		
Owner/ Employee	Age	Compensation ($)	Deferral ($)	New comp. ($)	Safe harbor 3% ($)	Total ($)	Deferral ($)	Safe harbor 3% ($)	Total ($)
Owner	60	350,000	34,750[1]	35,000	10,350	80,250	34,750[1]	10,500	45,250
Employee A	54	120,000	31,000[1]	12,000	3,600	46,600	31,000[1]	3,600	34,600
Employee B	42	50,000	2,500	2,500	1,500	6,500	2,500	1,500	4,000
Employee C	33	35,000	1,050	1,750	1,050	3,850	1,050	1,050	2,100
Employee D	30	35,000	1,050	1,750	1,050	3,850	1,050	1,050	2,100
Employee E	26	20,000	0	1,000	600	1,600	0	600	600
Total employer contributions[2]					72,300			18,300	
Less corporate tax savings on employer contributions and fees at 21%					(15,183)			(3,843)	
Cost to company					57,117			14,457	

Owner's allocation of employer contributions	45,500	10,500
Owner's share of employer contributions	62.93%	57.38%

For illustrative purposes only.

1. Deferral amounts include $11,250 catch-up contribution for the owner that's age 60 and $7,500 catch-up contribution for employee A that is age 54.
2. Total annual employer plan contributions are limited to 25% of compensation.

This hypothetical illustration is based on tax laws and regulations in effect for tax year 2025 and is not intended as tax advice. Tax rates and brackets are subject to change. Changes in tax rates and tax treatment of investment earnings may affect the comparative results shown. Investors should consult a tax advisor.

Age-weighted profit-sharing plan

Age-weighted plans generally benefit companies that maintain consistent profits and have a broad range in ages and salaries between "rank-and-file" and "key" employees (including owners). The employer's discretionary contributions are allocated among employees based on relative age and compensation. This results in older, more highly compensated employees receiving a greater portion of the contribution. As with all profit-sharing plans, all contributions to an age-weighted plan are made by the employer.

Due to the complexity of the contribution calculation and nondiscrimination testing, retirement plan administrative services are required. Retirement plan administration fees are tax deductible (if not paid from plan assets).

2025 plan features

Higher contribution limits	You decide the amount you wish to contribute each year, up to the lesser of 25% of total eligible plan compensation or $70,000.[1]
Cost flexibility	You may vary the amount you contribute annually.
Vesting	Vesting schedules are permitted.
Loans	Loans are available.
Optional 401(k) feature	You may amend your plan to allow employees to defer a portion of their pay as pre-tax and/or Roth elective deferrals (after-tax). Refer to the **Plans at a glance** on page 5 for contribution limits.
Employee benefit	Your discretionary contributions are allocated among employees based on relative age and compensation. Employees who are 21 or older and have completed one year of service are eligible.[2]

1. Catch-up contributions are in addition if 401(k) feature is added. The maximum considered compensation is $350,000 for 2025, indexed for inflation.
2. You may designate less restrictive eligibility requirements at your discretion.

Tax benefits

With an age-weighted plan, you can contribute generously to your own retirement savings while taking advantage of tax-deductible administration fees and contributions for your employees, as illustrated below.

Keep in mind, however, that the allocation formula used in the age-weighted calculation may not be beneficial for every company — especially one whose owner is younger than other employees, as illustrated in Plan B below. In this case, another plan may be more appropriate.

Age-weighted profit-sharing plan illustration — Plan A

Owner/Employee	Age	Compensation ($)	Contribution ($)	% of income	% of budget
Owner	**60**	350,000	70,000	20.00	75.58
Employee A	54	120,000	17,241	14.37	18.61
Employee B	42	50,000	3,016	6.03	3.26
Employee C	33	35,000	1,101	3.15	1.19
Employee D	30	35,000	886	2.53	0.96
Employee E	26	20,000	379	1.90	0.41
Total employer contributions			92,623		
Less tax savings on employer contributions at 21%			(19,451)		
Cost to company			73,172		

Owner’s allocation of employer contributions	55,000
Owner’s share of employer contributions	75.58%

Age-weighted profit-sharing plan illustration — Plan B

Owner/Employee	Age	Compensation ($)	Contribution ($)	% of income	% of budget
Owner	**25**	350,000	21,013	6.78	21.20
Employee A	54	120,000	59,526	49.61	60.05
Employee B	42	50,000	10,413	20.83	10.51
Employee C	33	35,000	3,802	10.86	3.84
Employee D	30	35,000	3,060	8.74	3.09
Employee E	26	20,000	1,310	6.55	1.32
Total employer contributions			99,124		
Less corporate tax savings on employer contributions at 21%			(20,816)		
Cost to company			78,308		

Owner’s allocation of employer contributions	21,013
Owner’s share of employer contributions	21.20%

For illustrative purposes only.

This hypothetical illustration is based on tax laws and regulations in effect for tax year 2025 and is not intended as tax advice. Tax rates and brackets are subject to change. Investors should consult a tax advisor. Changes in tax rates and tax treatment of investment earnings may affect the comparative results shown.

Finding the right plan

Although the three plans have different outcomes, the bottom line may not be your only consideration.

Finding the plan that best fits your company's needs is an important decision. The side-by-side comparison in the table below may be beneficial to you in this process.

- The SEP example is the most expensive, but it provides two profit-sharing allocation options and the most benefit to employees. This plan may be right for you if your goal is to reward and retain employees at the highest level.
- The age-weighted plan gives the older employees the largest contribution. This may meet your needs if your goal is to reward key or long-term employees.
- Finally, the new comparability example below allows the owner to receive a $70,000 contribution while still costing less than the SEP.

Comparing a SEP, an age-weighted, and a new comparability plan

			SEP			
Owner/Employee	**Age**	**Compensation ($)**	**Pro-rata ($)**	**Integrated with Social Security ($)**	**Age-weighted ($)**	**New comp. ($)**
Owner	60	350,000	70,000	68,705	70,000	70,000
Employee A	54	120,000	24,000	20,400	17,241	24,000
Employee B	42	50,000	10,000	8,500	3,016	2,500
Employee C	33	35,000	7,000	5,950	1,101	1,750
Employee D	30	35,000	7,000	5,950	886	1,750
Employee E	26	20,000	4,000	3,400	379	1,000
Total employer contributions			122,000	112,905	92,623	101,000
Less corporate tax savings on employer contributions and fees at 21%			(25,620)	(23,710)	(19,451)	(21,210)
Cost to company			96,380	89,195	73,172	79,790
Owner's allocation of employer contributions			70,000	68,705	70,000	70,000
Owner's share of employer contributions			57.38%	60.85%	75.58%	69.31%

For illustrative purposes only.

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Get started

One of the best ways to help reach your goal is to partner with a strong team: A financial professional who can provide sound guidance based on your individual needs and an investment company that can deliver a broad range of diversified strategies.

Talk to your financial professional about how a retirement plan with Invesco can help you get more out of retirement.