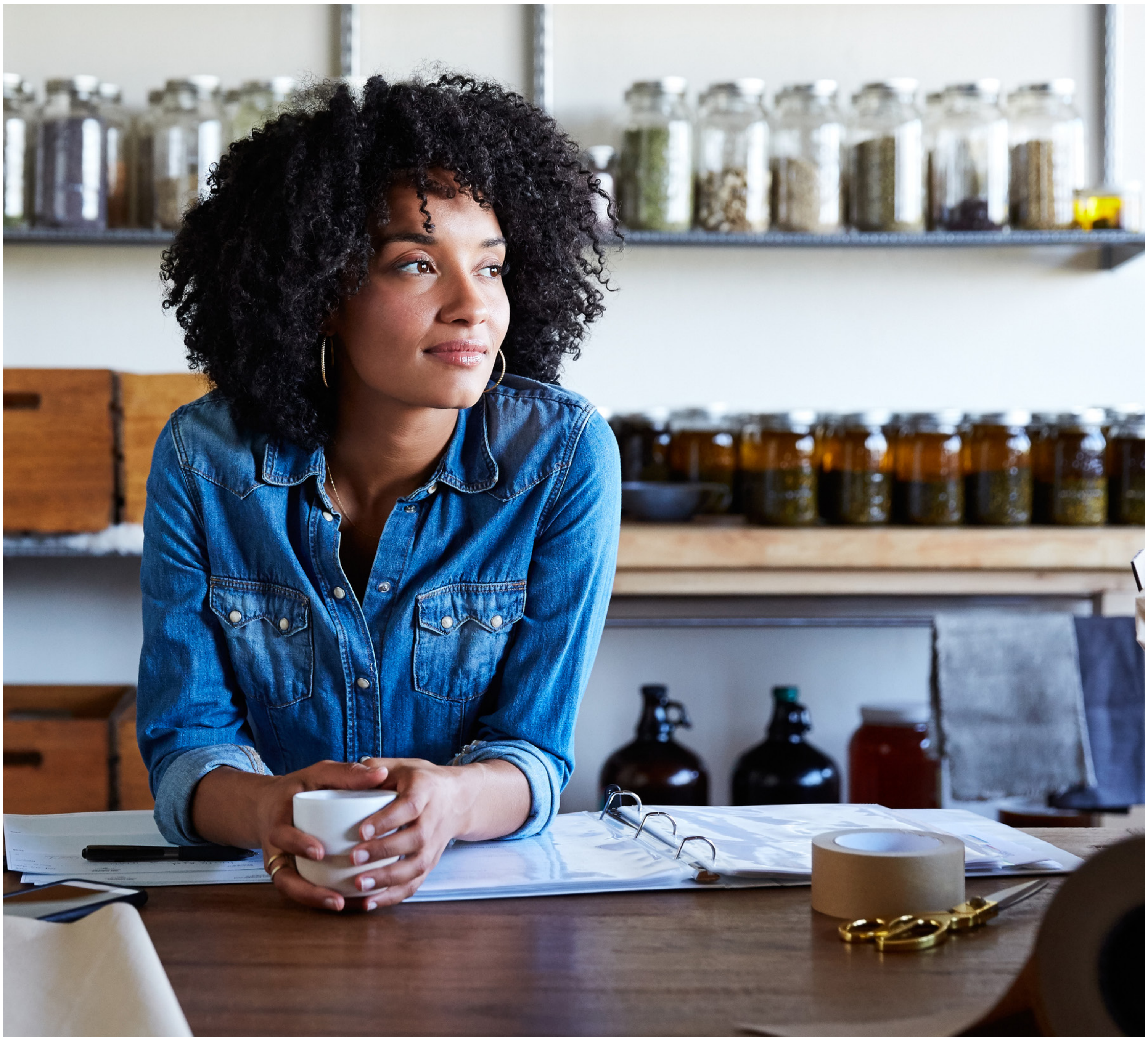
Business owner guide

Retirement Plans for Small Businesses



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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 for you and your employees you can't afford to pass up.

Funded in whole or in part by tax-deductible contributions, 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

The Invesco team is ready to work with you and your financial professional to evaluate your company's retirement plan needs. We'll consider key factors such as cost, plan features, recordkeeping services, tax implications, and investment choices. We'll help you choose a plan that's the best fit for you and your employees.

For more information regarding any of the plans featured, 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 professional or tax advisor for more complete information on any plan and its application to your particular situation. This guide is not intended as tax advice.

Tax credits available for small business retirement plans

Workplace retirement plans play a significant role in Americans' financial security in retirement. To encourage greater use of employer-sponsored retirement plans, Congress has enhanced and expanded the tax credits available for small employers that sponsor retirement plans for their employees, effective beginning in 2023 following the passage of the SECURE 2.0 Act of 2022. Most significantly, these credits could cover the first three years of start-up and operational costs for businesses with 1-50 employees!

The following tax credits are available to small employers (1–100 employees) establishing a retirement plan in 2023 and later tax years.

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,
- At least one nonhighly compensated employee participating in the plan, and
- Not 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 nonhighly 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 2023 with possible cost-of-living adjustments each year thereafter. 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.

Military spouse employees

Small employers with a defined contribution plan, SEP or SIMPLE IRA plan may claim a tax credit if they allow employees who are military spouses to 1) participate in the plan within two months of hire, 2) be eligible for any matching or nonelective contribution they would have been eligible for otherwise after two years of service, and 3) be 100% vested in employer contributions made on their behalf. The credit is available for the military spouse's first three years of participation in the plan. The tax credit is the sum of $200 per eligible military spouse and 100% of employer contributions up to $300 made for that employee, for a maximum tax credit of $500 per military spouse. The military spouse employee cannot be a highly compensated employee.

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

The SECURE 2.0 Act of 2022 requires all new 401(k) and 403(b) plans established after December 28, 2022, 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.

SEP IRA plan

Depending on your compensation, you could potentially save up to **$69,000** towards your own retirement using a SEP IRA.

The Simplified Employee Pension (SEP) plan is a low-cost retirement plan designed for small businesses and the self-employed. This plan enables you to make discretionary tax-deductible contributions for yourself and your eligible employees — with minimal administration.

Establishing a SEP 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.

2024 plan features

Flexible contribution limits	You decide the percentage you wish to contribute each year: Up to 25% of compensation or $69,000, 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.
Social Security integration	Additional contributions are permitted for employers or employees who earn more than the taxable wage base of $168,600.
Minimal administration	A SEP plan is easy to establish and operate. There are no required filings with the IRS, employee elective deferrals, or nondiscrimination testing.
Extended establishment date	A SEP 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 benefit	Reward your eligible employees.[2] You contribute to employees 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.[3]

The hypothetical example on this page shows how a SEP plan could help you save $69,000 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 ($)	Employer 20% SEP contribution[4] ($)
Owner	345,000	69,000
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		83,400
Less corporate tax savings on total contribution at 21%		(17,514)
Cost to company		65,886

Owner's benefit — SEP contribution	69,000
Owner's share of employer contributions	82.73%

For illustrative purposes only.

1. Maximum considered compensation is $345,000 for 2024, indexed for inflation.
2. 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.
3. Minimum compensation for 2024, indexed for inflation.
4. The maximum percentage is actually 25%; however, in this case, since the owner earns $345,000, 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.

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SIMPLE IRA plan

The Savings Incentive Match Plan for Employees (SIMPLE) IRA may be the ideal choice for small business owners 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. Employers with 100 or fewer employees — who at any time in the preceding tax year received at least $5,000 in pay from the employer — may sponsor a SIMPLE IRA. The employer may not maintain any other retirement plans.

2024 plan features

Two contribution choices for employers	Under a SIMPLE IRA, you must make contributions in one of two ways: **3% matching contribution.** Dollar for dollar, you match each participating employee's contribution up to 3% of the employee's compensation. In two years of any five-year period, you can elect to reduce the dollar-for-dollar match to as low as 1% of compensation. **2% nonelective contribution.** You contribute 2% of each eligible employee's compensation (up to a maximum contribution of $6,900 per employee), whether or not an employee elects to make deferrals.
Additional contributions	Effective 1/1/2024, the SECURE 2.0 Act added some provisions. First, you are permitted to make an additional nonelective contribution to your employees. This extra amount must be uniform and is limited to the lesser of $5,000 or 10% of each employee's pay. And second, you may be able to increase your employees' deferral limit in certain situations. Please seek competent tax advice on these new additional contributions before implementing them into your SIMPLE IRA plan.
Administrative simplicity	A SIMPLE IRA is relatively easy to set up and operate. 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). You will be required to transmit deferral information with each payroll.
Vesting	Employees are 100% vested immediately.
Employee benefit	Reward your eligible employees.[1] Employees who have earned a minimum of $5,000 from you 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.

Higher contribution limits of the SIMPLE IRA vs. Traditional IRA

Year	Traditional IRA limit[2]	SIMPLE IRA limit deferral[2]
2024 (under 50)	$7,000	$16,000
2024 (50 and older)	$8,000	$19,500

A SIMPLE IRA is true to its name when it comes to plan operation. Contributions under the plan (employees and yours) are simply deposited in a SIMPLE IRA.

1. Nonresident aliens and employees subject to collective bargaining agreements may be excluded. You may designate less restrictive eligibility requirements at your discretion.
2. Indexed for inflation.

Tax advantages

The hypothetical example below shows how a SIMPLE IRA could help you save $28,000 a year and contribute to your employees' retirement accounts.

Tax benefits of a SIMPLE IRA — 3% match

Owner/Employee	Compensation ($)	Deferral ($)	Match ($)	Total ($)
Owner	400,000	16,000	12,000	28,000
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
Employee F	18,000	0	0	0
Total employer contribution			16,290	
Less corporate tax savings on total employer contribution at 21%			(3,421)	
Cost to company			12,869	

Owner's allocation of employer contributions			12,000	
Owner's share of employer contributions			73.66%	

For illustrative purposes only.

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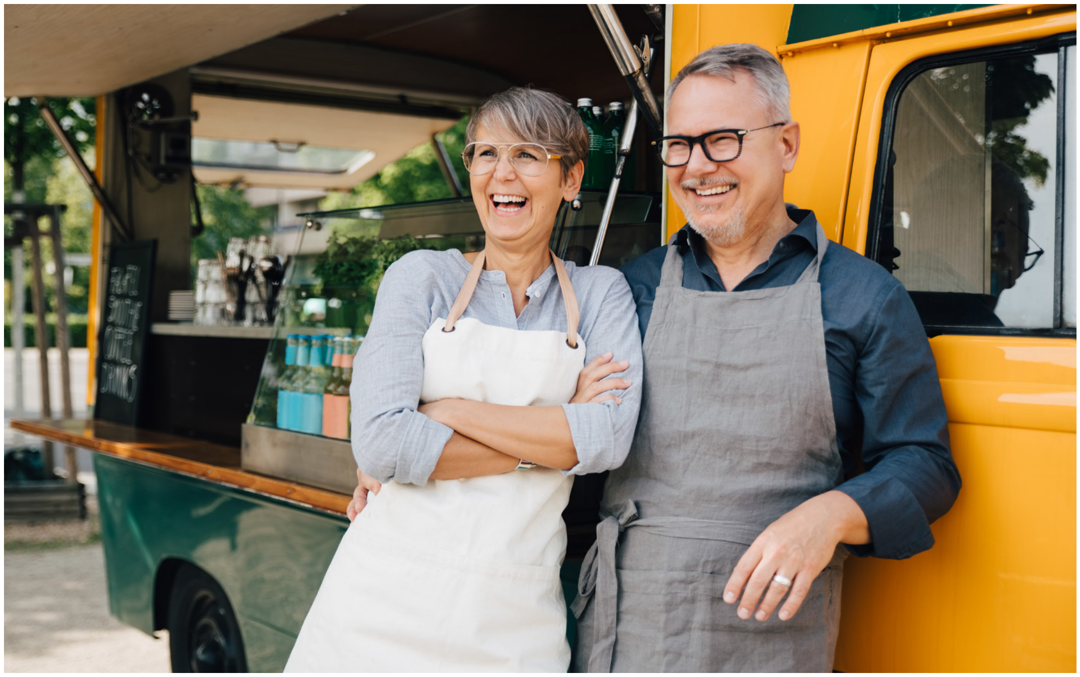
Solo 401(k) plan



A solo 401(k) is an innovative 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.

2024 plan features

Higher contribution limits	You may be able to contribute to the plan each year in a combination of employee salary deferrals and employer profit-sharing contributions. **Salary deferrals.** The maximum you can contribute on a pre- and/or Roth after-tax basis is $23,000, or $30,500 if 50 or older.[1] **Employer contributions.** The profit-sharing contribution cannot exceed 25% of your compensation.[2] Combined salary deferrals and profit-sharing contributions cannot exceed the lesser of 100% of compensation or $69,000 ($76,500 if age 50).[1]
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.
Designated Roth contributions	This elective feature offers tax-free earnings growth for all investors — and tax-free distributions for those 59½ or older or who meet the specified criteria. Check your plan provider to see if this option is available.
Vesting	You are 100% vested immediately.
Loans	Loans are available.
Low fees	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).

1. Indexed for inflation.
2. Maximum considered compensation is $345,000 for 2024, indexed for inflation.

Safe harbor 401(k) plan

Safe harbor 401(k)s allow business owners to sponsor 401(k) plans without passing nondiscrimination tests.[1] 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.

2024 plan features

Maximized deferrals for the business owner	Because the plan is not subject to 401(k) nondiscrimination testing, you may make traditional or designated Roth[2] salary deferral contributions up to $23,000 ($30,500 if 50 or older).[3]
Employer contributions	You may choose from the following fully vested employer contribution options: **Match.** The basic formula provides a dollar-for-dollar match of employee contributions up to 3% of compensation and 50 cents on the dollar for the next 2% of compensation.[4] **Nonelective.** A contribution of at least 3% of compensation for all eligible employees is required whether or not they elect to make deferrals.[5]
Loans	Loans are available.
Employee benefit	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. 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.
2. Designated Roth contributions allow investors to make after-tax salary deferral contributions that they can eventually withdraw tax-free if certain conditions are met.
3. Indexed for inflation.
4. Any other formula used must meet the IRS requirements for safe harbor contributions.
5. Maximum considered compensation is $345,000 for 2024, 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 his 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	345,000	23,888[1]	4.75	30,500[1]	8.84	13,800	44,300
Employee A	54	120,000	13,200[1]	4.75	30,500[1]	25.42	4,800	35,300
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 $7,500.00 catch-up contribution since both are over 50 years of age.

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Other profit-sharing plans

A flexible way to reward employees

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

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

2024 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 $69,000.[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.
Vesting	Vesting schedules are permitted.
Loans	Loans are available.
Employee benefit	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 $345,000 for 2024, Indexed for inflation.
2. Social Security taxable wage base is $168,600 for 2024.

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).

2024 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 $69,000.[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 pretax pay — up to $23,000 ($30,500 if 50 or older).[2]
Employee benefit	Your discretionary contributions are allocated among preferred and nonpreferred employee groups. Some plans also permit the employer to put each person in their own "group," allowing employers to customize the amount of contributions. 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 $345,000 for 2024, indexed for inflation.
2. Indexed for inflation.

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	345,000	69,000	20.00	84.15
Employee A	54	120,000	6,000	5.00	7.32
Employee B	42	50,000	2,500	5.00	3.05
Employee C	33	35,000	1,750	5.00	2.13
Employee D	30	35,000	1,750	5.00	2.13
Employee E	26	20,000	1,000	5.00	1.22
Total employer contributions			82,000		
Less corporate tax savings on employer contributions at 21%			(17,220)		
Cost to company			64,780		

Owner's share of employer contributions	69,000
Owner's allocation of employer contributions	84.15%

For illustrative purposes only.

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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.

2024 plan features

Maximized deferrals for the business owner	You may make traditional or designated Roth salary deferral contributions — up to $23,000 ($30,500 if 50 or older) — because the plan is not subject to 401(k) nondiscrimination testing.[2]
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 benefit	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.
2. Indexed for inflation.

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	345,000	30,500[1]	36,150	10,350	77,000	30,500[1]	10,350	40,850
Employee A	54	120,000	30,500[1]	1,673	3,600	32,573	30,500[1]	3,600	34,100
Employee B	42	50,000	2,500	697	1,500	4,697	2,500	1,500	4,000
Employee C	33	35,000	1,050	488	1,050	2,588	1,050	1,050	2,100
Employee D	30	35,000	1,050	488	1,050	2,588	1,050	1,050	2,100
Employee E	26	20,000	0	279	600	879	0	600	600
Total employer contributions[2]					57,925			18,150	
Less corporate tax savings on employer contributions and fees at 21%					(12,164)			(3,812)	
Cost to company					45,761			14,339	

Owner’s allocation of employer contributions	46,500	10,350
Owner’s share of employer contributions	80.28%	56.93%

For illustrative purposes only.

1. Deferral amounts include $7,500.00 catch-up contribution since both are over 50 years of age.
2. Total annual employer plan contributions are limited to 25% of compensation.

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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).

2024 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 $69,000.[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 pretax pay — up to $23,000 ($30,500 if 50 or older).[2]
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.[3]

1. Maximum considered compensation is $345,000 for 2024, indexed for inflation.
2. Indexed for inflation.
3. 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**	345,000	69,000	20.00	75.31
Employee A	54	120,000	17,241	14.37	18.82
Employee B	42	50,000	3,016	6.03	3.29
Employee C	33	35,000	1,101	3.15	1.20
Employee D	30	35,000	886	2.53	0.97
Employee E	26	20,000	379	1.90	0.41
Total employer contributions			91,625		
Less tax savings on employer contributions at 21%			(19,241)		
Cost to company			72,384		

Owner's allocation of employer contributions	69,000
Owner's share of employer contributions	75.31%

Age-weighted profit-sharing plan illustration — Plan B

Owner/Employee	Age	Compensation ($)	Contribution ($)	% of income	% of budget
Owner	**25**	345,000	21,013	6.09	21.20
Employee A	54	120,000	59,526	49.60	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%

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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 $69,000 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	345,000	69,000	68,705	69,000	69,000
Employee A	54	120,000	24,000	20,400	17,241	6,000
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			121,000	112,905	91,623	82,000
Less corporate tax savings on employer contributions and fees at 21%			(25,410)	(23,710)	(19,241)	(17,220)
Cost to company			95.590	89,195	72,382	64,780

Owner's allocation of employer contributions	69,000	68,705	69,000	69,000
Owner's share of employer contributions	57.02%	60.85%	76.45%	84.15%

For illustrative purposes only.

This hypothetical illustration is based on tax laws and regulations in effect for tax year 2024 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.

Plans at a glance

Key features	**SEP IRA**	**SIMPLE IRA**	**Age-weighted**	**New comp.**	**Safe harbor 401(k)**	**New comp. + safe harbor 401(k)**	**Solo 401(k)**	**Profit-sharing**
Cannot maintain any other plans		■						
Minimal paperwork and reporting	■	■						
Full-service recordkeeping recommended			■	■	■	■		■
Loans available			■	■	■	■	■	■
Contributions can vary with cash flow	■		■	■		■	■	■
Pretax salary deferral contributions		■			■	■	■	
Post-tax Roth salary deferral contributions	■	■			■	■	■	
*Planning note: Beginning in 2024, all part-time employees (Generally – between 500 and 999 hours for 3 consecutive years) must be eligible to contribute salary deferrals (3 years of service tracking begins in 2021)					■	■	■	
Who can establish								
The sole proprietor[1] partnerships, S corporations, C corporations, and nonprofit groups	■	■	■	■	■	■	■	■
Governmental agencies	■	■	■	■				■
Annual employer contributions								
Cannot exceed 25% of the total eligible compensation[2]	■		■	■	■	■	■	■
Required match or nonelective contribution		■			■	■		
Employee pretax deferrals								
2024 (under 50)		$16,000	$23,000[3]	$23,000[3]	$23,000	$23,000	$23,000	
2024 (50 and older)		$19,500	$30,500[3]	$30,500[3]	$30,500	$30,500	$30,500	
Administrative fees								
(Plan costs)			■	■	■	■	■	

1. A sole proprietor/partner in a partnership is considered self-employed, and their compensation is referred to as earned income.
2. Maximum considered compensation is $345,000 for 2024, indexed for inflation. Calculations of maximum total plan contributions and participant limits are complex and require knowledge of IRS regulations.
3. Plan may be amended to allow employee pretax deferrals.

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

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.

All data based on 2024 tax requirements. All investing involves risk, including risk of loss.

The illustrations provided were calculated by Convergent Retirement Plan Solutions, LLC. Invesco is not affiliated with Convergent Retirement Plan Solutions, LLC.

Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns and does not assure a profit or protect against loss.

Note: Not all products, materials or services are available at all firms. Financial professionals, please contact your home office.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

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Please obtain and review all financial material carefully before investing.