Retirement Plan Design

Retirement plans help businesses and not-for-profit organizations attract and retain top employees — while also benefiting from tax advantages. But not every retirement plan is right for every client.

Use this flowchart to help determine which plan design(s) best meets a plan sponsor's goals. Whether the client is a first-time retirement plan sponsor or considering a transition to another plan, the Principal Financial Group® will help you find the plan design or type that helps achieve their goals.

TO LEARN MORE: Have questions? Contact your third party administrator (TPA), your local representative of The Principal® or the Advisor Support Team at 800-952-3343.

Which employees does the employer want to primarily benefit from the retirement plan?

A select group of employees

YES

Is the employer comfortable with providing a benefit in which funding requirements can vary greatly from year to year?

YES — Defined Benefit Plan

NO — Defined Contribution – 401(k) or 403(b) with Age Weighted or Comparability Profit-Sharing Plan

All employees – Does the employer want employees to contribute to the plan?

NO — SEP-IRA

YES

Does the employer employ fewer than 100 employees who earn more than $5,000/year?

YES

Is the employer comfortable with a required employer contribution?

YES

Does the employer want to allow for loans and/or employ a vesting schedule?

NO — SIMPLE-IRA

YES — Defined Contribution Plan (401(k) and 403(b))

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Defined Benefit Plan:

- Typically works best if owners are over age 50
- Limited contribution flexibility
- Actuary is involved
- Employees do not have individual account balance
- Fixed benefit will be available at normal retirement date
- Allows employer to provide a benefit in addition to any contributions made to a qualified defined contribution plan in excess of $53,000

Defined Contribution – 401(k) or 403(b) with Age Weighted or Comparability Profit-Sharing Plan:

- Flexible contributions
- Profit-sharing contributions can be tailored to a specific group, with a goal of maximizing the contributions to the select group
- Allows employee deferrals, including Roth contributions
- Employees can defer up to $18,000* ($24,000* if over age 50) or 100% of compensation
- Vesting schedule is allowed
- Loans are allowed

SEP-IRA:

- Employer contributions only – lesser of 25% of compensation or $53,000*
- Flexible contributions
- Concern if large number of employees – must include employees who are age 21 and earn >$550* in 3 of past 5 years
- No loans or vesting schedule allowed

SIMPLE-IRA:

- Employees can only defer up to $12,500* ($15,500* if over age 50)
- Employer contributions are required: 100% match up to 3% or 2% of compensation for eligible employees
- Match can be reduced in 2 out of 5 years
- Roth contributions are not allowed
- No loans or vesting schedule allowed

Defined Contribution Plan (401(k) and 403(b)):

- 401(k) [or 403(b) for 501(c)(3) tax-exempt organizations]
- Employees can defer up to $18,000* ($24,000* if over age 50) or 100% of compensation
- Roth (after-tax) contributions are allowed
- Employer contribution is not required
- Optional employer contribution can be a match and/or additional profit-sharing contribution
- Profit-sharing contributions can be allocated in various ways, subject to compliance testing; it may be possible to contribute more to owners and key employees
- Vesting schedule is allowed
- Loans may be allowed
- Safe Harbor 401(k)
  - Type of 401(k) that eliminates ADP and ACP testing, allowing highly compensated employees to contribute the maximum amount
  - Required employer contribution – 4% match or 3% contribution to all eligible employees

Plan Type	Overview	Typical Plan Sponsor	Employer Advantages	Considerations
SEP-IRA	• An IRA is established for each eligible employee • Employer makes ALL contributions • Generally a plan for SMALL businesses and the self-employed • Employer contributions up to lesser of 25% compensation or $53,000*	Plan may be most appealing to those businesses with 10 employees or fewer that want to: • Make all contributions • Have contribution flexibility • Minimize administrative expenses	• Company contributions are generally federally tax-deductible • Easy administration and flexibility • No requirement on frequency and amount of contributions • No employer administration fee • Minimal paperwork	• Less flexibility than qualified plans – no loan provisions, no vesting, no Roth contributions • May be established up until the extended due date of the employer's tax return • May require the employer to cover employees that would be excludable under standard 401(k) plan provisions
Simple-IRA	• Employees can only defer up to $12,500* ($15,500* if over age 50) • Employers contribute either by matching up to 3% of each eligible employee's salary or contributing 2% of all eligible employees' salaries, regardless of participation • Employer cannot maintain any other qualified plan in the same calendar year	Plan may be most appealing to businesses with fewer than 100 employees (including self-employed) who want to: • Minimize plan expenses • Minimize administrative responsibilities • Make a set employer contribution	• Company contributions are generally federally tax-deductible • Easy administration • No compliance testing or annual Form 5500 filing needed • No employer administration fee • Minimal paperwork	• An annual employer contribution is required • Less flexibility, and cannot offer another plan in same year • No loans, vesting or Roth contributions allowed • Must establish between Jan 1 and Oct 1 • May require the employer to cover employees that would be excludable under standard 401(k) plan provisions
401(k) and 403(b) Plans	• Popular retirement plan for businesses, recognized and typically easily understood by employees	All businesses, except governmental agencies, that want to: • Benefit key employees • Have contribution flexibility • Support education • Have plan flexibility	• Company contributions are generally federally tax-deductible • The most flexible plan design • Additional profit-sharing contributions allowed that may be subject to vesting • Administrative costs may be offset by tax, coverage, or savings from vesting schedule • Tax credit available to first time retirement plan sponsors	• A higher level of participation by non-highly compensated employees may be necessary for owners or other highly compensated employees to defer the maximum salary deferral contributions allowed
Safe-Harbor 401(k)	• Allows employers to enjoy the benefits of a traditional 401(k) plan with fewer plan compliance tests • May allow higher salary deferral contributions than a traditional 401(k) plan, if specific employer contributions are made to the plan	All businesses, except governmental agencies, that want to: • Benefit key employees • Minimize plan compliance testing • Make a set employer contribution	• Company contributions are generally federally tax-deductible • Enjoy benefits of a traditional 401(k) plan with fewer compliance tests • Additional profit-sharing contributions allowed that may be subject to vesting • Administrative costs may be offset by tax, coverage, or savings from vesting • Key employees may be able to get to maximum deferral limit	• An annual employer contribution is required • An annual employee notice is required
Defined Benefit Plan (DB)	• A pension plan may require a greater fixed commitment by the plan sponsor, but in many circumstances, can provide for the highest levels of employer contributions	Although traditionally sponsored by large employers, many employers with fewer than 50 employees will establish a DB plan if they want to: • Make all contributions • Fund greater than $53,000 for key employees • Make all investment decisions and bear all investment risk	• Company contributions are generally federally tax-deductible • Some coverage flexibility with respect to employees, particularly those working fewer than 1000 hours per year • Highest contributions may be possible for a plan with one owner, or family only, particularly if business owner is over age 50	• There are two types of DB plans that are most frequently used: traditional and cash-balance • Contributions are the least flexible and the employer bears all investment risk • Requires hiring an actuary for implementation and ongoing administration • They may provide maximum contributions, but they allow the least flexibility • Employees do not have individual account balances, and will not be allowed to invest their own retirement money; they will receive a known/fixed benefit at their normal retirement date

* For 2016 Tax Year

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