Retirement plan options for business owners

	SIMPLE IRA	SEP-IRA	SOLO 401(k)	401(k)	CASH BALANCE PLAN
Type of business	Businesses with less than 100 employees that do not maintain another plan	All businesses	Self-employed (can include spouses and certain immediate family members)	All businesses	Best for businesses with consistent earnings and higher profits
Description	Retirement plan that offers a mix of employer and employee contributions. Intended for small businesses that do not have a retirement plan in place currently. Easy to establish and maintain. Individual IRAs are maintained for employees.	Allows business owners to fund retirement accounts through employer contributions for themselves and employees in an easy and low-cost manner. Individual IRAs are maintained for employees.	Defined contribution retirement plan for self-employed business owners which can offer more features than a SEP-IRA.	Employer-sponsored defined contribution plan intended for businesses seeking a more comprehensive retirement plan that can be customized to meet their specific needs.	Hybrid plan combining aspects of a traditional pension plan with a defined contribution plan. Intended for owners of smaller businesses who are highly compensated, older, and want to accelerate retirement savings in a tax-deferred manner.
Funding	Employee salary elective deferrals + employer match or non-elective profit sharing contribution.	Employer contribution based on percentage of compensation.	Employee salary elective deferral + employer contributions.	Employee salary elective deferrals + employer contributions. Can be matched with an employer profit sharing component as well.	Employer funds mandatory contributions to the plan based on a promised benefit at retirement. Contributions consist of a benefit credit and interest credit. Although assets are commingled, "hypothetical" accounts for participants are maintained to reflect individual balances.
Maximum eligibility requirements	Employees earning at least $5,000 in two prior years and expected to earn at least $5,000 in current year allowed to participate.	Employees must be included if they are age 21, worked in business 3 out of the past 5 years, and received at least $750 in compensation.	Generally none.	Generally employees age 21 with either 1 year of service (1,000 hours) or 500 hours for 3 consecutive years are allowed to participate.	Generally employees age 21 with either 1 year of service (1,000 hours) or 500 hours for 3 consecutive years are allowed to participate.
2023 Contribution limits	Employee may contribute up to $15,500 with an additional $3,500 if age 50 or older. Employer has choice of contributing a match of 100% up to 3% of compensation (may be reduced to 1% in 2 of any 5 years) or contributing 2% of compensation profit sharing to all employees.	Discretionary contribution of up to 25% of compensation (20% if self-employed). Subject to a maximum of $66,000.	$22,500 in salary deferrals with additional $7,500 if age 50 or older. Employer contributions of 25% of compensation (20% if self-employed). Subject to a maximum contribution limit of $66,000 (not including catch-up contribution for those age 50 and older).	$22,500 in salary deferrals with additional $7,500 if age 50 or older. Employers can choose to make matching contributions and/or profit sharing contributions. Subject to a maximum contribution limit of $66,000 (not including catch-up contribution for those age 50 and older).	Contributions are based on a defined benefit, actuarial formula to provide an annual benefit in retirement that cannot exceed the lesser of: (a) 100% of participant's average compensation for the three highest consecutive years or; (b) the 415(b)(1)(A) limit of $265,000. The formula is generally based on years of service, compensation, and an assumed interest rate.
Key features and benefits	Allows combination of employee salary deferrals with employer contributions while being easier to establish and maintain than a 401(k) plan.	Provides flexibility for employer to decide whether (and how much) to contribute each year. Easy to maintain and low cost.	Allows potentially higher contribution limits than a SEP-IRA because of the mix of employee salary deferrals and employer profit sharing contribution. May offer other features such as loans and Roth contributions.	In addition to high contribution limits, offers a wide range of features and plan design options such as loans, Roth contributions, vesting schedules, and customized profit sharing contributions.	Allows for a vesting schedule and much higher contributions than a standard defined contribution plan, especially for older business owners.
Potential drawbacks	Does not allow for certain features such as loans, vesting schedules, and Roth contributions. Lower contribution limits than other plans such as a 401(k).	Basic retirement plan which does not allow for many features. Does not allow for employee salary deferrals. Lower eligibility requirements may mean that part-time employees must be included.	Only eligible for self-employed business owners with no (non-family) employees. Generally more costly than a SEP-IRA plan.	Higher level of complexity and cost due to stringent nondiscrimination testing and reporting requirements (unless using a "safe harbor" design).	Employers responsible for making contributions to the plan and retaining investment management risk. Significantly more expensive to establish and maintain due to complex actuarial requirements.
Access to funds	No vesting allowed. Withdraw at any time — subject to 10% penalty if under age 59½ (penalty increases to 25% if withdrawal occurs within 2 years of participation in the plan).	No vesting allowed. Withdraw at any time — subject to a 10% penalty if under age 59½.	Withdrawals available following a plan-triggering event (disability, death, age 59½, hardship). 10% penalty may apply for early withdrawal. Plan may offer access through a loan feature.	Withdrawals available following a plan-triggering event (separation of service, disability, death, age 59½, hardship). 10% penalty may apply for early withdrawal. Plan may offer access through a loan feature and restrict access through vesting schedules (employer contributions only).	Subject to a plan-triggering event (termination of employment, separation of service, disability, death, retirement). Plan must offer a monthly annuity benefit option but can offer an optional lump-sum distribution.

Customized profit sharing plans can allow higher contributions for business owners

Many business owners sacrifice personal savings in order to continually invest in their businesses, potentially resulting in a shortfall in meeting retirement savings goals. Those looking to maximize their retirement savings may benefit from certain profit sharing plans that allow the employer to direct a higher percentage of profit sharing contributions to owners and key employees. One of these options is the "new comparability plan," which groups participants into different groups based on certain factors such as job category or age. The example below illustrates how a new comparability plan can direct a greater percentage of contributions to the business owner vs. a traditional profit sharing plan.

		TRADITIONAL PROFIT SHARING			NEW COMPARABILITY PLAN		
	Annual salary	**Allocation**	**% of salary**	**% of contribution**	**Allocation**	**% of salary**	**% of contribution**
Owner, age 55	$225,000	$45,000	20%	56.25%	$45,000	20%	83.72%
Employee, age 35	$80,000	$16,000	20%	20.00%	$4,000	5%	7.44%
Employee, age 32	$60,000	$12,000	20%	15.00%	$3,000	5%	5.58%
Employee, age 28	$35,000	$7,000	20%	8.75%	$1,750	5%	3.26%
Total contribution	—	$80,000	—	—	$53,750	—	—

There is additional cost and complexity involved in establishing and maintaining this type of plan. However, in certain cases the higher contribution level provided to the business owner can justify the additional cost.