# EXPLORING QUALIFIED RETIREMENT PLANS

What you need to know when deciding which plan is right for your business.

RAYMOND JAMES

As a business owner, offering the right qualified retirement plan is a powerful way to invest in your company's future and retain highly qualified employees.

This brochure is designed to help you decide which type of qualified retirement plan is right for your business by giving you an understanding of the most common plan types, including:

- Simplified employee pension (SEP) plans – employer-sponsored, tax-favored retirement plans for small businesses
- SIMPLE IRA plans – low-cost alternatives to company-sponsored 401(k) plans
- Profit-sharing plans – featuring design flexibility and self-determined contributions
- Age-weighted and comparability profit-sharing plans
- Safe Harbor 401(k) plans – giving all employees equal potential to maximize their deferrals
- Owner-only and one-person 401(k) plans – attractive alternatives to other qualified plans
- Defined benefit pensions – ideal for business owners and employees approaching retirement

## CHOOSING THE RIGHT RETIREMENT PLAN FOR YOUR BUSINESS

Selecting the right retirement plan is key to keeping your business' bottom line healthy while meeting the needs of your employees. Making the right choice for your business is a crucial step, which is why, at Raymond James, helping you and your employees plan for retirement is a top priority.

Providing a retirement plan has many potential benefits. One is that contributions to a retirement plan can help you meet tomorrow's goals of financial independence.

Another advantage is that establishing a retirement plan may provide tax advantages to both employees and employer. Eligible contributions are deductible expenses to your business, and all contributions have the potential to grow tax deferred until withdrawn.[1]

Still another benefit is that the right retirement plan can create positive employee relations, helping to attract and retain quality employees while reducing turnover.

For many business owners, the question is not "Should I implement a retirement plan?" but rather, "Which plan is right for my business?" When examining your options, you and your financial advisor should first determine whether a defined contribution plan or a defined benefit plan is best suited to your needs.

SELECTING THE RIGHT RETIREMENT PLAN FOR YOUR BUSINESS IS A CRUCIAL STEP.

[1]Certain small employers who establish a new plan may be eligible for a tax credit for the first three years in which the plan is maintained. Please speak with your tax professional for further details.

In a defined benefit plan, the benefits to be received are determined at retirement. The employer decides, within IRS limits, the level of benefits. It is also the employer's decision whether the contribution is a fixed monthly payment or a specified percentage of compensation. Contributions are made annually to fund these benefits based on actuarial assumptions and the benefit formula stated in the plan document.

A defined contribution plan, as the name implies, defines the contributions to be made each year the plan is in operation. An allocation formula specifies a percentage of compensation to be contributed on behalf of each participant. Any gains are tax deferred until withdrawn from the plan. There are many different types of defined contribution plans. All – except SEP, SIMPLE and Safe Harbor 401(k) plans – allow employer contributions to be subject to a vesting schedule, which requires participants to accrue a certain number of years of service before their contributions become fully vested.

DETERMINE WHETHER A DEFINED CONTRIBUTION PLAN OR A DEFINED BENEFIT PLAN IS BEST SUITED TO YOUR NEEDS.

Most of these retirement plans require the sponsoring employer to file Form 5500 with the IRS, which discloses specific plan activities during the year. The preparation and filing of this annual report typically adds to the administrative expense of maintaining the plan. Your tax advisor can provide more specific information about this process, or your Raymond James financial advisor can help you find a plan-administration professional.

Employee withdrawals from a retirement plan made before the age of 59 1/2 may be subject to an IRS penalty for early withdrawal, in addition to being subject to ordinary income tax. For more information about plan distribution issues, please contact your financial advisor.

## SIMPLIFIED EMPLOYEE PENSION (SEP) PLANS

A SEP plan is an employer-sponsored, tax-favored retirement plan that offers small businesses an attractive alternative to standard profit-sharing plans. In a SEP plan, an employer deposits contributions into each participant's IRA rather than into an employer trust account, thereby simplifying the accounting process. Unlike a traditional qualified plan, a SEP doesn't involve an extensive written plan document, plus has the benefit of minimal compliance reporting and disclosure requirements.

To be valid for any given tax year, the SEP plan document must be executed and the SEP IRA accounts established and funded by the due date of the employer's tax return, including extensions. Most SEP plans are established using the IRS Model 5305-SEP form.

### ELIGIBILITY

The employer must make a contribution on behalf of any employee who is at least 21 years old and has worked for the business in any three of the preceding five years, provided that, in the year the employee becomes eligible, they earn more than the minimum indexed compensation amount. This requirement applies to both full- and part-time employees. The employer may set less restrictive age or service requirements, but the eligibility rules must be applied on a consistent basis to all employees, including owner-employees.

### CONTRIBUTIONS

A SEP plan is employer funded and is 100% vested at all times. The primary difference between SEP and profit-sharing plan contribution limits is that the 25% SEP limit applies to each individual participant, whereas the 25% profit-sharing limit applies to the employer contribution as a percentage of the company's eligible payroll.

Social Security integration is allowed if a prototype plan is used but may increase administrative complexity and cost.

### ADVANTAGES

- A SEP plan is easy to set up and is comparable to an employer establishing and funding a "company provided IRA" for the benefit of each employee.
- There are no requirements for a separate employer trust document and administrative costs are minimal.
- Employers sponsoring SEP plans are not required to file annual plan returns (IRS Form 5500) in contrast to employers sponsoring qualified pension or profit-sharing plans.
- SEP plan offers tax-planning and contribution flexibility, allowing employers to establish a SEP plan until its tax-filing deadline. This is unlike qualified pension or profit-sharing plans, which must be in place no later than the last day of the plan year.

## SIMPLE IRA PLANS

The savings incentive match plan for employees (SIMPLE) IRA is a low-cost alternative for employers who view 401(k) administrative costs as limiting but still want to offer their employees a retirement savings plan. Business entities, including self-employed persons, partnerships and corporations, as well as certain tax-exempt organizations, can establish SIMPLE IRA plans. A SIMPLE IRA plan can also be established as a SIMPLE 401(k) trust account but is not used in this format very often. For that reason, the information provided in this section is specific to the SIMPLE IRA.

### ELIGIBILITY

An employer maintaining a SIMPLE plan may not maintain any other qualified plan in which its employees currently receive benefits. An eligible employer is defined as having 100 or fewer employees. Employees must be eligible if they received at least $5,000 in compensation during any two preceding years and/or are expected to earn at least $5,000 in the current year. A less restrictive eligibility requirement may be used. There are no minimum participation requirements.

WITH A SIMPLE IRA, PLAN ADMINISTRATION COSTS CAN BE MINIMAL.

### CONTRIBUTIONS

Employees may defer their contributions up to a limit (which changes annually) with no set maximum percentage of compensation.[2]

The employer must make a mandatory contribution as either a matching dollar-for-dollar contribution on the first 3% elective deferral or a 2% uniform contribution to all eligible employees, regardless of whether they made elective deferrals. The employer can elect a lower matching contribution in two out of five consecutive years.

### ADVANTAGES

- A SIMPLE plan is not subject to nondiscrimination tests or top-heavy requirements.
- If the SIMPLE IRA format is used there is no requirement to file IRS Form 5500, reducing administration.
- Minimal plan administration costs are low, and highly paid or owner-employees are not restricted in their abilities to defer due to low participation by their lower-paid employees.

[2]Employees age 50 and older may make catch-up contributions of $3,500 for 2025.
Under a change made in SECURE 2.0, a higher catch-up contribution limit applies for employees aged 60, 61, 62 and 63 who participate in these plans. For 2025, this higher catch-up contribution limit is $5,250 for those age 60-63.

## PROFIT-SHARING PLANS

Profit-sharing plans offer employers both design flexibility and discretion when making contributions. Employer contributions are self-determined and can be allocated in a number of ways. If an employer makes little or no profit during a year, no contribution is required, although low profits don't restrict the contribution level and an employer is permitted to make contributions even if the company has no profit.

### ELIGIBILITY

Typically, a profit-sharing plan's eligibility provisions require employees to have one year of service and be at least 21 years of age. A two-year service period may be imposed if full immediate vesting is provided. For most plans, a year of service is defined as working 1,000 hours in a plan year.

### CONTRIBUTIONS

An employer's maximum deduction is limited to 25% of the annual compensation paid to eligible employees. The individual maximum contribution limit for employees applied to all defined contribution plans is 100% of compensation or $70,000 for 2025, whichever is less. Depending on the plan's allocation formula, contributions for individual employees may exceed 25% provided the aggregated employer contribution does not exceed the 25% employer contribution limit.

### ADVANTAGES

- Self-determined employer contributions have built-in flexibility and can be allocated in a wide variety of ways.
- Employers can make discretionary contributions each year, which can be subject to a vesting schedule.
- A profit-sharing plan may be integrated with Social Security or may use a specific allocation method.

## AGE-WEIGHTED AND COMPARABILITY (CROSS-TESTED) PROFIT-SHARING PLANS

These plans use allocation methods that base contributions on both the age and compensation of eligible employees. They are similar in concept to defined benefit pension plans, but contributions are discretionary. Treasury regulations allow profit-sharing plan nondiscrimination testing under Section 401(a)(4) to be based on anticipated benefits at retirement, similar to defined benefit plans, rather than on the level of contributions made in that particular year.

### ELIGIBILITY

Employee eligibility requirements for age-weighted or comparability profit-sharing plans are the same as those for regular profit-sharing plans.

### CONTRIBUTIONS

In an age-weighted plan, a participant's age, or length of time until retirement, is factored into the allocation formula on an individual basis, so older participants receive a larger proportionate share of the contribution. The comparability plan allows an employer to select classes of employees that provide for different contribution allocation levels for each group. If the nondiscrimination tests are met, an employer can allocate a larger proportionate share of the company's contribution to specific employees the employer wishes to benefit the most.

### ADVANTAGES

- An age-weighted plan is beneficial for businesses aiming to favor older, highly paid participants.
- Comparability plans allow an allocation that benefits a specific class of employees, allowing employers to be more targeted in their approach.
- If the favored group is older than other classes of employees (on an aggregated basis), the allocation formula is likely to pass the required nondiscrimination tests.

## 401(K) PROFIT-SHARING PLANS

A 401(k) plan is a type of profit-sharing plan that includes an elective salary deferral provision. The employer typically may make a matching contribution tied to the elective salary deferral, as well as a profit-sharing contribution allocated to all eligible participants. Plan participants usually have the ability to select their own asset allocations from the plan's various investment alternatives.

## ROTH 401(K) PROFIT-SHARING PLANS

A Roth 401(k) plan is a relatively new feature of a 401(k) plan that permits participants to make after-tax salary deferrals into a 401(k) plan. When an employer elects to offer the Roth 401(k) provision, participants may choose between pretax and after-tax salary deferrals.

### ELIGIBILITY

Employee eligibility requirements for 401(k) plans are typically one year of service and attainment of age 21.

### CONTRIBUTIONS

The three common 401(k) contribution types are:

- **Elective salary deferral –** The indexed amount employees can defer is subject to cost-of-living adjustments and may change each year.
- **Employer matching –** Employers can make a discretionary contribution based on a percentage of an employee's elective salary deferrals.
- **Profit-sharing –** Contributions can be allocated in any method available to regular profit-sharing plans.

An employer's maximum deduction is limited to 25% of the annual compensation paid to eligible employees. In addition, employers must meet several nondiscrimination tests, which may further limit the amounts highly paid employees may defer.

Employees age 50 and older may make a catch-up contribution up to $7,500, which does not count against their individual maximum annual additions limit of the lesser of 100% of compensation or $70,000 for 2025.*

### ADVANTAGES

- A 401(k) plan allows both employers and employees to contribute toward retirement while reducing the current tax burdens of both.
- Because employees are active participants, 401(k) plans typically play a big role in employees' perception of the benefits provided by their employers.

## 401(K) SAFE HARBOR PLANS

Safe Harbor 401(k) plans are not subject to nondiscrimination tests and, therefore, all employees have the opportunity to maximize deferrals.

### ELIGIBILITY

Employee eligibility requirements are the same as those for 401(k) profit-sharing plans.

### CONTRIBUTIONS

Contribution types and limits are the same as those for 401(k) profit-sharing plans, with a "safe harbor" exception. To qualify for the exception, employers must make a 100% vested contribution of either:

- 3% of compensation for each eligible employee
- A matching contribution of up to 4% of compensation

The safe harbor then permits owners and other highly compensated employees to defer the maximum without regard to the deferral levels of employees who are compensated less.

*Under a change made in SECURE 2.0, a higher catch-up contribution limit applies for employees aged 60, 61, 62 and 63 who participate in these plans. For 2025, this higher catch-up contribution limit is $11,250 instead of $7,500.

### ADVANTAGES

In addition to the advantages offered by a 401(k) profit-sharing plan, the Safe Harbor 401(k) avoids the nondiscrimination testing that may limit the amounts highly compensated employees may defer.

## OWNER-ONLY/ONE-PERSON 401(K)

Operators of owner-only businesses – those that either have no additional employees or in which all employees can be lawfully excluded from a qualified retirement plan – may find the owner-only 401(k) plan to be an attractive arrangement. A recent tax law permits owners, partners and shareholders of small businesses, along with their spouses, to maximize their contributions if net compensation per individual is less than the current indexed dollar limit.

OPERATORS OF OWNER-ONLY BUSINESSES MAY FIND THE OWNER-ONLY 401(K) TO BE ATTRACTIVE.

### ELIGIBILITY

Employee eligibility requirements are the same as those for 401(k) profit-sharing plans.

### CONTRIBUTIONS

Contribution types and limits are the same as those for 401(k) profit-sharing plans, including elective salary deferrals, profit-sharing contributions based on the percentage of annual compensation and total contributions up to a designated limit.

Employees age 50 and older can also make a catch-up contribution up to $7,500, which does not count against the contribution limit.*

### ADVANTAGES

In addition to the advantages offered by a 401(k) profit-sharing plan, the Safe Harbor 401(k) avoids the nondiscrimination testing that may limit the amounts highly compensated employees may defer.

*Under a change made in SECURE 2.0, a higher catch-up contribution limit applies for employees aged 60, 61, 62 and 63 who participate in these plans. For 2025, this higher catch-up contribution limit is $11,250 instead of $7,500.

## DEFINED BENEFIT PENSION PLAN

The traditional defined pension benefit plan is designed to provide a specific amount of retirement. Employers bear the risk of providing a promised level of retirement benefits to participants.

### ELIGIBILITY

Eligibility requirements are the same as those for defined contribution plans.

### CONTRIBUTIONS

Unlike defined contribution plans, defined benefit plan limits are based on the benefits to be received at retirement, not on the annual contributions. Each year, the plan's actuary determines the required annual contribution based on factors, such as age, salary level and years of service, as well as interest rate assumptions. The maximum annual benefit that a plan may fund is 100% of a participant's compensation or the current indexed limit, whichever is less.

### ADVANTAGES

- For participants closer to retirement, contributions to a defined benefit plan may exceed the 100% or $70,000 limit for 2025 imposed by defined contribution plans.
- This plan type may be advantageous to a business owner who is approaching retirement age, has never started a retirement plan and wishes to quickly contribute as much money as possible.
- A defined benefit plan can also be advantageous to employers seeking to provide a fixed benefit or to favor older employees.

## BENEFITS OF RETIREMENT PLANNING WITH RAYMOND JAMES

We use what we believe to be the top providers in the retirement plan market. Every step of the way, this approach allows us to maintain a more consultative approach to help you select the options that best fit the needs of your businesses. In addition, we work with many professional plan administration firms, enabling us to help provide solutions to more complex plan designs or compliance needs that may arise with certain customized plans.

### ASSET PROTECTION

Raymond James & Associates and Raymond James Financial Services are members of the Securities Investor Protection Corporation (SIPC), which protects securities customers of its members up to $500,000 (including $250,000 for claims for cash). An explanatory brochure is available upon request, at sipc.org or by calling 202.371.8300. Raymond James has purchased excess-SIPC coverage through various syndicates of Lloyd's, a London-based firm. Excess SIPC is fully protected by the Lloyd's trust funds and Lloyd's Central Fund. The additional protection currently provided has an aggregate firm limit of $750 million, including a sub-limit of $1.9 million per separate capacity for cash above basic SIPC limits. Account protection applies when a SIPC-member firm fails financially and is unable to meet obligations to securities clients, but it does not protect against market fluctuations.

### INVESTMENT FLEXIBILITY

A Raymond James account allows contributions to be invested in a wide range of investment alternatives.

### PROFESSIONAL SERVICE

Our financial advisors have the training and expertise to assist you in choosing the retirement plan and investment strategy that's right for your business.

OUR FINANCIAL ADVISORS HAVE THE TRAINING AND EXPERTISE TO ASSIST YOU IN CHOOSING THE RETIREMENT PLAN AND INVESTMENT STRATEGY THAT'S RIGHT FOR YOUR BUSINESS.

### GENERAL RULES

After reading this brochure, you should understand the general rules of qualified retirement plans for small businesses. The following summary is designed to assist you in clarifying these ideas relative to the plan selection.

- Defined contribution plans may work well for employers with long time horizons for funding employee plans.
- For sole proprietors or small business owners wishing to minimize administrative costs, a SEP or SIMPLE plan may be the best choice.
- For small business owners without employees wishing to maximize contributions, a one-person 401(k) may be the right plan.
- Profit-sharing is appropriate if discretionary contributions or vesting schedules are important.
- For employers with older key employees, defined benefit or age-weighted plans may be more appropriate.

# Taking the next step

The retirement plans discussed here illustrate the wide variety of choices available to you as a business owner. With help from your financial advisor, you can choose the plan that best suits your needs and objectives. Before implementing any plan, you should consult with your tax and/or legal advisors.

To learn more about qualified retirement plans, contact your advisor.

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