



Choosing the Right Retirement Plan



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The retirement business can be very rewarding – and very challenging. ADP® is committed to helping you and your clients create retirement plans that work better for all. Working with ADP Retirement Services means you'll never have to be on your own. ADP's deep Human Capital Management (HCM) knowledge means we:

- ▶ Have the scale to make retirement plan administration easy to manage
- ▶ Help your clients control administration risk
- ▶ Put the interests of you and your clients first

Helping your clients and their employees plan for the future is a big responsibility. You can count on us to provide the support, tools, and access you need to help find the way to retirement plan success.

Deciding Which Plan Is Right

The most popular types of small business retirement plans include SEP IRA, SIMPLE IRA, and 401(k) plans. When helping your clients decide which is right for their business, consider their business size, their self-employment income, and preferences regarding the plan's design and features, such as high contributions or simple administration.

Simplified Employee Pension Individual Retirement Accounts (SEP IRA)

Employers can set up a SEP IRA for themselves and each of their employees. With a SEP, only employers can contribute money to the plan, and it must be an equal percentage for each employee. SEP IRAs are flexible — the employer contribution can change each year, which is a plus if your client's business has inconsistent cash flow. A SEP IRA allows your client to save substantially, and it's easy to set up and administer. But, for businesses with many employees, the employer contributions of a SEP can be costly.

SIMPLE IRA Plan

The Savings Incentive Match Plan for Employees — or SIMPLE IRA — is specifically designed for small businesses. While businesses with as many as 100 employees may use a SIMPLE IRA for their retirement plan solution, it is typically used by small businesses with less than 10 employees. It allows both employers and employees to put money in the plan (contributions). Employees can contribute a percentage of their salary to their accounts and choose how the money is invested, and the employer is required to make an annual matching

contribution. Due to mandatory employer contributions, SIMPLE plans are free of U.S. Department of Labor (DOL) testing requirements. These plans are typically low cost, and easy to set up and administer.

Small Business 401(k) Plan

401(k) plans offer greater choices in plan design. For example, employers usually can determine eligibility based on employee age and service. With a 401(k) plan, employees fund their own retirement accounts, and employer contributions are optional. These plans offer high contribution potential, and employees can take loans from plan savings. They can elect to match a percentage of the amount employees contribute to the plan — often called deferral percentage — for the employees participating in the plan. Employers can also establish a vesting schedule for contributions made by the employer. Two common vesting schedules permitted under the Internal Revenue Code for employer contribution accounts are 100% vesting after three years of service, or a graded vesting schedule — 20% after two years of service, or 20% after each additional year of service until the employer contribution account is fully vested after six years of service.

401(k) plans require more maintenance and plan administration, and require annual DOL testing. Fortunately, many 401(k) plans offer a variety of plan features and services to help simplify these responsibilities through smart plan design. For example, plans that adopt and follow the rules of a Safe Harbor plan automatically pass nondiscrimination requirements, because they generally require broad based, fully vested employer contributions. An employer can choose to provide matching contributions or non-elective contributions to satisfy the Safe Harbor.

For more details
visit www.irs.gov
for resources and
information about SEP
IRAs, SIMPLE IRAs, and
401(k) plans.



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Let's take a look at how the different plans compare.¹

	SEP IRA	SIMPLE IRA Plan	401(k) Plan
Business Size	Available to any size business	Available up to 100 employees	Any
Contribution Type(s)	Employer only	<ul style="list-style-type: none"> ▶ Employer ▶ Employee (contributions optional) 	<ul style="list-style-type: none"> ▶ Employer (optional) ▶ Employee mandatory
Compensation Limit ²	\$265,000	\$265,000 applicable to 2% non-elective contribution	\$265,000
Eligibility	Every employee who is 21 or older, is employed by the employer for three of the last five years, and has compensation of at least \$600	Each employee who received compensation of at least \$5,000 in any two preceding years — even if they are not consecutive — and who is expected to get compensation of at least \$5,000 in the year for which eligibility is being determined. May exclude non-resident aliens and collectively bargained employees.	Employers may choose eligibility requirements and may exclude classes of employees, but may not exclude employees in an included class who have attained age 21 and are employed by the employer for at least one year.
Annual Employer Deferral Limit	The lesser of 25% of total compensation, up to a maximum compensation limit, or \$53,000	<ul style="list-style-type: none"> ▶ Either match employee contributions dollar for dollar up to 3% of compensation (can be reduced to as low as 1% in any 2 out of 5 years) ▶ Contribute 2% of each eligible employee's compensation (up to \$265,000) 	Employee contributions plus employer-matching and/or profit-sharing contributions cannot exceed lesser of 100% of compensation limit or \$53,000
Annual Employee Deferral Limit	Not applicable	\$12,500	\$18,000
Age 50+ Catch Up Contributions ³	Not applicable	\$3,000	\$6,000
Maximum Combined Employee and Employer Contributions ⁴	The lesser of 25% of employee's compensation (up to a maximum compensation limit) or \$53,000 ⁵	\$25,000 ⁶	The lesser of 100% of employees' compensation or \$53,000, plus catch-up contribution up to \$6,000
Loans and Withdrawals	<ul style="list-style-type: none"> ▶ Loans: Not permitted ▶ Withdrawals: Permitted⁷ 	<ul style="list-style-type: none"> ▶ Loans: Not permitted ▶ Withdrawals: Permitted⁸ 	<ul style="list-style-type: none"> ▶ Loans: Permitted ▶ Withdrawals: Not permitted⁹
Required Plan Testing	No	No	Yes

Help Your Clients Start As Soon As They Can —That's The First Rule Of Planning And Saving For The Future.

A retirement plan is a smart benefit for your clients, their employees, and their business. If you would like more information about ADP's retirement plan offerings, please contact me and I will connect you with a licensed ADP Retirement Services representative.¹⁰

¹ All limits in this chart are for 2016.

² This is the maximum amount of compensation on which benefits may be calculated.

³ Eligible employees who have reached age 50 or older in a year may make additional contributions to the plan.

⁴ This is the maximum amount of employee contributions and employer contributions to an eligible employee's plan account from any source.

⁵ Please note a SEP IRA only has Employer contributions (it does not allow any employee contributions).

⁶ The maximum annual contribution to a participant's account and is based on an employer matching contribution limited to 3% of compensation (\$12,500 deferral, plus \$12,500 maximum match; \$3,000 catch-up contribution and \$3,000 matching contribution, if applicable). Compensation of at least \$416,667 would be required for the \$12,500 maximum match. If an employer non-elective contribution of 2% of compensation (limited to \$265,000) is elected, the maximum employer contribution is \$5,300.

⁷ May be subject to 10% penalty if under age 59½.

⁸ May be subject to 25% penalty during the first two years of the SIMPLE IRA account and 10% penalty thereafter if under age 59½.

⁹ Except that the plan may permit the participant to withdraw certain money types under certain circumstances.

¹⁰ Registered representatives of ADP Broker-Dealer, Inc. an affiliate of ADP, LLC, One ADP Blvd, Roseland, NJ 07068. Member FINRA. Please note that only licensed representatives of ADP Broker-Dealer, Inc. (Member FINRA), an affiliate of ADP, LLC, One ADP Blvd, Roseland, NJ 07068, or of a broker-dealer firm that has executed a marketing agreement with ADP, LLC may offer and sell ADP retirement services products and services or speak to retirement plan features and/or investment options available in any ADP retirement product.

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