WELLS FARGO Advisors

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2021 Retirement Plans Overview for Professionals

A summary of common employer retirement plans

A successful retirement plan helps achieve the business's goals.

If a business owner is developing a plan for the first time, he or she should review the available alternatives and the business's and participants' goals before making a choice. If an owner is evaluating an existing plan, the first step should be to determine whether the business's and participants' goals are the same as they were when the plan was first implemented. If either party's requirements have changed, the plan may need adjusting.

Selecting the appropriate retirement plan

To help a business select or evaluate a plan, Wells Fargo Advisors uses information the owner provides to review:

- The business's goals and objectives
- Features of existing plan
- Employee census data for unique characteristics

Working closely with our retirement plan experts, the financial advisor will explain the alternatives that align with the business's goals and objectives.

Issues businesses should consider when thinking about retirement plans

- **Receiving a tax credit.** To help with the cost of offering a plan, the government lets businesses with at least one rank-and-file employee but fewer than 100 employees claim a nonrefundable tax credit for establishing and maintaining a retirement plan. The credit applies to 50% of the first $500 for Non Highly Compensated Employees up to $5,000 in administrative and retirement-education expenses (start-up expenses) for the first three years the plan is established.
- **Offering employee education.** One of the most requested employee-benefit additions is financial education. Financial education assists employees and can help motivate them toward higher productivity and greater company loyalty.
- **Fee disclosure.** The Department of Labor (DOL) requires plan sponsors to disclose more to participants than it did previously regarding plan fees and expenses charged both against participant accounts and to the plan itself. These disclosures may drive participants and sponsors alike to have questions. Wells Fargo Advisors can help plan sponsors build a due diligence file that documents the process to evaluate a plan's fees and expenses among other relevant plan decisions.

Retirement plan comparison

Plan type	SEP IRA (Simplified Employee Pension)	Profit sharing (Defined contribution)	Defined benefit/cash balance (Defined benefit)
Eligible employers	Any business entity (corporation, partnership, self-employed, S corporation, nonprofit, government entity, and LLC).	Any business entity (corporation, partnership, self-employed, S corporation, nonprofit, government entity, and LLC).	Any business entity (corporation, partnership, self-employed, S corporation, nonprofit, government entity, and LLC).
Deadline for establishing	Employer's tax-filing due date, including extensions.	Starting for Plan year 2020, Employer's tax-filing due date, including extensions.	Starting for Plan year 2020, employer's tax-filing due date, including extensions.
Eligible employees (maximum requirements)	Any employee who is age 21 or older and has worked for the employer for any part of three of the last five years. May exclude employees earning less than $650 (indexed for cost of living).	Any employee who is age 21 or older with 1,000 hours of service in two 12-month periods.[8] Effective for plan years after 12/31/2020, a new eligible class of employees has been created for those that have completed 3 consecutive years of service with at least 500 hours each year. This class of employees must be allowed to contribute; however, employer contributions are not required for this class. Also, these employees may be excluded from compliance testing.	Any employee who is age 21 or older with 1,000 hours of service in two 12-month periods.[8] Can exclude certain employees based on plan document.
Obligation to contribute[1]	Employer makes discretionary contributions and can change or discontinue them each year. Deadline for employer's contribution is due date of employer's tax return, including extensions.	Unless fixed as a percentage of compensation or profits, contributions are at the employer's discretion and are not required to be dependent on profits.[1] Deadline for employer's contribution is due date of employer's tax return, including extensions.	Employer must make contributions dictated by the benefit formula and calculated annually by an actuary. Deadline for employer's contribution is due date of employer's tax return, including extensions, or 8½ months after the end of the plan year, whichever is earlier.
Maximum annual employer deduction limit	25% of total eligible payroll (maximum eligible compensation[3] per employee is $290,000).	25% of total eligible payroll (maximum eligible compensation[3] per employee is $290,000).	Contribution is not limited (maximum compensation[3] per employee to determine benefits is $290,000). NOTE: Annual benefit from the plan may not exceed the lesser of 100% of participant's compensation or $230,000.
Maximum annual allocation[2] to employee's account	25% of employee's eligible compensation[3] or $58,000, whichever is less.	100% of employee's eligible compensation[3] or $58,000, whichever is less.	No individual accounts.
Maximum annual employee contribution	SEP: NA Grandfathered SARSEP: $19,500, not to exceed 25% of compensation.[3,5]	NA	NA
Catch-up contributions	NA, except grandfathered SARSEPs ($6,500 limit).	NA	NA
Vesting	Immediate 100% vesting.	Vesting schedules available when using a maximum of one year of service for eligibility requirements.	Traditional defined benefit: vesting schedules available when using a maximum of one year of service for eligibility requirements. Cash balance: vesting schedule must provide 100% vesting in no more than three years of service.
Nondiscrimination testing	Not required.	Required.	Required.
Top-heavy testing	Required. Some plan documents default to top-heavy status.	Required.	Required.
Reporting and disclosure	When plan is established, employer completes the SEP-IRA agreement and gives a copy to the employee when the employee becomes eligible. No additional annual reporting is required.	Full ERISA requirements. Appropriate IRS Form 5500 and applicable schedules must be filed annually.	Full ERISA requirements. Appropriate IRS Form 5500 and applicable schedules must be filed annually.

Retirement plan comparison *(continued)*

Plan type	SIMPLE IRA (Savings Incentive Match Plan for Employees)	401(k) Profit sharing & safe harbor 401(k)[9] (Defined contribution)
Eligible employers	Corporation, partnership, self-employed, S corporation, nonprofit, government entity, and LLC. Maximum 100 employees with $5,000 in compensation for prior year, and business cannot fund or accrue a benefit in any other plan in current year.	Corporation, partnership, self-employed, S corporation, nonprofit, and LLC (excluding government entity).
Deadline for establishing	Oct. 1 for contributions in current calendar year. (Plan year must be calendar.)	Starting for Plan year 2020, Employer's tax-filing due date, including extensions.
Eligible employees (maximum requirements)	Any employee who earned $5,000 or more during any two preceding years and is expected to earn $5,000 or more in the current year.	Any employee who is age 21 or older with 1,000 hours of service within 12 months. Effective for plan years after 12/31/2020, a new eligible class of employees has been created for those that have completed 3 consecutive years of service with at least 500 hours each year. This class of employees must be allowed to contribute; however, employer contributions are not required for this class. Also, these employees may be excluded from compliance testing.
Obligation to contribute[1]	Requires one of the following employer contributions: • Dollar-for-dollar matching contribution[10] up to 3% of employee's compensation. • Nonmatching contribution of 2% of compensation for eligible employees. Deadline for employer's contribution is due date of employer's tax return, including extensions. Employee deferrals must be deposited as soon as reasonably possible but no later than 30 days following month of payroll.	Employer contributions are discretionary unless the plan is top-heavy.[1] Safe harbor: Requires one of the following employer contributions: • Basic match — Dollar-for-dollar on first 3% of compensation; 50 cents on next 2% of compensation. • Enhanced match.[7] • Nonmatching contribution — minimum 3% of compensation for all eligible employees. Deadline for employer's contribution is due date of employer's tax return, including extensions. Deferrals must be deposited as soon as reasonably possible, not to exceed 15 days following the end of the month.
Maximum annual employer deduction limit	Match — $16,500 maximum match up to 3% of compensation,[3] assuming a salary of $550,000. Also includes matching catch-up contributions. Nonelective — $5,700 employer contribution; maximum eligible compensation[3] per employee is $290,000.	25% of total eligible payroll (maximum eligible compensation[3] per employee is $290,000).
Maximum annual allocation[2] to employee's account	Match — $27,000 ($13,500 match up to 3% of compensation,[3] plus $13,500 salary deferral), assuming an annual salary of $450,000. $33,000 if employee is age 50 or older. ($16,500 deferral plus $16,500 match) assuming an annual salary of $550,000. Nonelective — $19,200 ($5,700 employer contribution plus $13,500 salary deferral, which does not include catch-up contributions); maximum eligible compensation[3] per employee is $290,000. $22,200 limit if employee is age 50 or older.	100% of employee's eligible compensation[3] or $58,000 ($64,500 if employee is age 50 or older), whichever is less (including employee salary deferral).
Maximum annual employee contribution	$13,500 not to exceed 100% of compensation.[3]	Up to 100% of compensation,[3] not to exceed $19,500.[5]
Catch-up contributions	$3,000	$6,500
Vesting	Immediate 100% vesting.	Employee contributions: immediate 100% vesting. Safe harbor employer contributions: immediate 100% vesting. Non-safe harbor employer contributions: vesting schedules available.
Nondiscrimination testing	Not required.	Required. Safe harbor 401(k) plans may be exempt if only safe harbor contribution is utilized.
Top-heavy testing	Required. Some plan documents default to top-heavy status.	401(k): Required. Safe harbor 401(k): Not required.
Reporting and disclosure	Employer must give employees Summary Description and Contribution Notice no later than Nov. 2 each year. No additional annual reporting is required.	Full ERISA requirements. Appropriate IRS Form 5500 and applicable schedules must be filed annually.

Retirement plan comparison *(continued)*

Plan type	403(b) (Defined contribution)	457(b) (Nonqualified deferred compensation)
Eligible employers	Organizations qualified under IRC section 501(c)(3), such as schools, churches and hospital, and nonprofit organizations.	State and local governments and nonprofit organizations, such as universities and hospitals. Does not include churches and qualified church-controlled organizations.
Deadline for establishing	Can be established any time during calendar year.	Can be established any time during calendar year.
Eligible employees (maximum requirements)	All employees of qualified organizations; some exclusions may be allowed if an ERISA 403(b).	All employees of qualified organizations; some exclusions may be allowed.
Obligation to contribute[1]	Employer contributions are discretionary but may subject the plan to additional reporting/discrimination requirements. Deadline for employer's contribution is due date of employer's information return, including extensions.	Contributions typically come from employee salary reduction. Employer contributions are permitted if the plan document provides. Deadline for employer's contribution is due date of employer's information return, including extensions.
Maximum annual employer deduction limit	Contributions limited to 100% of includable compensation[3] with a maximum of $58,000.	Contributions limited to 100% of includable compensation[3] with a maximum of $19,500.
Maximum annual allocation[2] **to employee's account**	100% of employee's eligible compensation[3] or $57,000, whichever is less.	$19,500[5]
Maximum annual employee contribution	Up to 100% of includable compensation,[3] not to exceed $19,500.[5,6] No longer subject to MEA calculation.	Up to 100% of includable compensation,[3] not to exceed $19,500.[5,6]
Catch-up contributions	$6,500[6]	$6,500[6]
Vesting	Employee contributions: Immediate 100% vesting. Employer contributions: Vesting schedules available.	Employee contributions: immediate 100% vesting. Employer contributions: vesting schedules available.
Nondiscrimination testing	Required for employer contributions; not subject to ADP testing.	Not required.
Top-heavy testing	Not required.	Not required.
Reporting and disclosure	If employer makes contributions, IRS Forms 5500 may have to be filed annually.	Under some circumstances, may require full ERISA reporting.

1. Top-heavy minimums may apply when more than 60% of account balances/accrued benefits are attributable to key employees (or for SEP IRAs, 60% of aggregate contribution for key employees).
2. Allocation refers to the total of employer contributions, forfeitures, and any employee salary deferral or voluntary after-tax contribution. Catch-up contributions are in addition to this limit.
3. Compensation is the amount shown on W-2 forms (wages, salaries, bonuses, etc.) and self-employed earned income, or as defined within the plan document.
4. New safe harbor 401(k) plans must be established at least three months prior to the end of the plan year. If a traditional 401(k) converts to a safe harbor 401(k), employees must be notified at least 30 days prior to the beginning of the first full 12-month safe harbor 401(k) plan year.
5. Individual employer plans may limit deferrals. Refer to plan administrator for individual employee limitations.
6. Additional catch-up provisions may apply to certain individuals.
7. Enhanced match must be at least as favorable as the basic match but can be based on an amount up to but no more than 6% of compensation.
8. If using a vesting schedule, a one-year maximum period is permitted.
9. Does not reflect Qualified Automatic Contribution Arrangement (QACA).
10. Can be as low as 1% of employee's compensation two out of five years.

Distributions and rollovers for employer retirement plans

Retirement plan distributions and their taxation are often confusing issues. A financial advisor from Wells Fargo Advisors can help educate both plan sponsors and participants on the distribution alternatives available. This table provides an overview of the rules.

	Plan type						
	SIMPLE IRA	SEP IRA	Profit sharing or 401(k) plan	Money purchase	Defined benefit/ cash balance	403(b)	457(b)
Loans	Not permitted	Not permitted	Based on plan document provisions	Based on plan document provisions	Based on plan document provisions	Based on plan provisions	Based on plan provisions
Hardship withdrawals	Follows IRA rules	Follows IRA rules	Based on plan document provisions	Not permitted	Not permitted	Based on plan provisions	In cases of "unforeseeable" emergency
Tax treatment of distributions on pretax contributions	Subject to ordinary income taxes and, if taken prior to age 59½, 10% IRS additional tax (25% if within two years of first deposit)	Subject to ordinary income taxes and, if taken prior to age 59½, 10% IRS additional tax	Upon distributable event,* subject to ordinary income taxes and, if taken prior to age 59½, 10% IRS additional tax	Upon distributable event,* subject to ordinary income taxes and, if taken prior to age 59½, 10% IRS additional tax	Upon distributable event,* subject to ordinary income taxes and, if taken prior to age 59½, 10% IRS additional tax	Upon distributable event,* subject to ordinary income taxes and, if taken prior to age 59½, 10% IRS additional tax	Ordinary income taxes when the distribution is received
Subject to IRS Code Section72(t) exceptions to early withdrawal penalty	Yes	Yes	Yes	Yes	Yes	Yes	NA
Rollover contributions accepted	From other SIMPLE IRA plans or after first two years from first deposit	From qualified plans, IRAs,and other SEPs; SIMPLE IRAs after two years from first deposit	Based on plan document provisions	Based on plan document provisions	Based on plan document provisions	Based on plan provisions	Based on plan provisions

*The plan document indicates what qualifies as a distributable event. Items such as termination of employment, in-service distributions, disability, etc., could be viewed as distributable events.

Cost of living adjustment (COLA) increases

The government has made these COLA increases from 2017 through 2021:

Code section	2021	2020	2019	2018	2017
401(a)(17)/404(l)/408(k)(3)(c) Annual compensation	$290,000	$285,000	$280,000	$275,000	$270,000
402(g)(1) Elective deferrals	$19,500	$19,500	$19,000	$18,500	$18,000
408(k)(2)(C) [SEP] Minimum compensation	$650	$600	$600	$600	$600
408(p)(2)(E) [SIMPLE IRA] Maximum deferrals	$13,500	$13,500	$13,000	$12,500	$12,500
414(q)(1)(B) Highly compensated employee threshold	$130,000	$130,000	$125,000	$120,000	$120,000
414(v)(2)(B)(i) [401(k)] Catch-up contribution limit	$6,500	$6,500	$6,000	$6,000	$6,000
414(v)(2)(B)(ii) [SIMPLE IRA] Catch-up contribution limit	$3,000	$3,000	$3,000	$3,000	$3,000
415(b)(1)(A) Defined-benefit limits	$230,000	$230,000	$225,000	$220,000	$215,000
415(c)(1)(A) Defined-contribution limits	$58,000	$57,000	$56,000	$55,000	$54,000
416(i)(1)(A)(i) Key employee	$185,000	$185,000	$180,000	$175,000	$175,000
457(e)(15) Deferral limit	$19,500	$19,500	$19,000	$18,500	$18,000
Taxable wage base	$142,800	$137,700	$132,900	$128,400	$127,200

Important notice

As required by the IRS, you are advised that this communication is not intended to and cannot be used or relied on for the purpose of avoiding federal taxes. This communication was written to support the promotion or marketing of the transaction(s) or matter(s) addressed. For tax advice based on your particular circumstances, consult an independent tax advisor.

We're here to help

You and your business owner clients will find we focus on two key advantages — flexibility and personal service. We provide access to a wide range of retirement plan alternatives and the freedom to select only those services that best meet the business's needs. These services include three key areas:

Investments. Your clients can choose from an extensive variety of investment choices, including certificates of deposit, money market funds, individual stocks and bonds, collective funds, private money managers, and mutual funds.

Record keeping. We can work with a business's existing administrator, help locate a qualified provider, or work with individual tax professionals who provide administration.

Product solutions. Our flexible approach lets your clients gain access to many of the leading retirement plan providers nationwide. We can work with your clients to evaluate the bundled and unbundled solutions available through these providers.

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Please keep in mind that rolling over your qualified employer-sponsored retirement plan (QRP) to an IRA is just one of multiple options for your retirement plan. Each of the following options are different and may have distinct advantages and disadvantages:

- Leave assets in your former QRP, if plan allows
- Leave QRP at current custodian or trustee
- Move assets to your new or existing QRP, if plan allows
- Cash out or take a lump-sum distribution

Each of these options has advantages and disadvantages and the one that is best depends on your individual circumstances. You should consider features such as investment options, fees and expenses, and services offered. Your Wells Fargo Advisors Financial Advisor can help educate you regarding your options so you can decide which one makes the most sense for your specific situation. Before you make a decision, read the information provided in this piece to become more informed and speak with your current retirement plan administrator and tax professional before taking any action.

When considering rolling over your QRP assets, key factors that should be considered and compared between QRPs and the IRAs include fees and expenses, services offered, investment options, when penalty-free withdrawals are available, treatment of employer stock, when required minimum distributions begin, and protection of assets from creditors and bankruptcy. Investing and maintaining assets in an IRA will generally involve higher costs than those associated with QRPs. You should consult with the plan administrator and a professional tax advisor before making any decisions regarding your retirement assets.