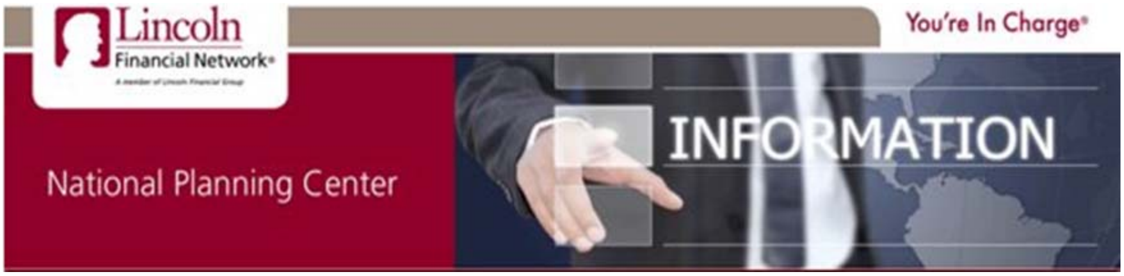
Qualified Retirement Plans

A reference guide

Put together by the Qualified Plans Resource Group



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Various Tools and Resources:

IRS Publication 590 - http://www.irs.gov/pub/irs-pdf/p590.pdf
IRS Retirement Plans Navigator - http://www.retirementplans.irs.gov/
401(k) HelpCenter - http://www.401khelpcenter.com/
National Financial - Retirement Products Guide, Sales, Marketing, and Technical Counseling- (800) 905-7212
LFG Roth Conversion Calculator- https://rothira.lfg.com/

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Qualified Plans Committee - Reference Guide (2013)

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Retirement Plans

Introduction

As an employer, you may want to establish one or more retirement plans for yourself and/or your employees. Having a plan can provide significant benefits for both you and your employees (if any). There are many different types of retirement plans, however, and choosing the right one for your situation is a critical decision. You want a plan that will meet both your goals as the employer and the needs of any employees you may have. In addition, it is important to balance the cost of establishing and maintaining a plan against the potential benefits.

General benefits of retirement plans

By establishing and maintaining a retirement plan, you can reap significant benefits for both your employees (if any) and yourself as employer. From your perspective as an employer, one of the main advantages of having and funding a retirement plan is that your employer contributions to the plan are generally tax deductible for federal income tax purposes. Contributing to the plan will therefore reduce your organization's taxable income, saving money in taxes. The specific rules regarding deductibility of employer contributions are complex and vary by type of plan, however, so you should consult a tax advisor for guidance.

For many employers, perhaps the greatest advantage of having a retirement plan is that these plans appeal to large numbers of employees. In fact, offering a good retirement plan (along with other benefits, such as health insurance) may allow you to attract and retain the employees you want. You will save time and money in the long run if you can hire quality employees, and minimize your employee turnover rate. In addition, employees who feel well rewarded and more secure about their financial future tend to be more productive employees, further improving your business's bottom line. Such employees are also less likely to organize into collective bargaining units, which can cause major business problems for some employers.

So, why are retirement plans considered such a valuable employee benefit? From the employee's perspective, key advantages of a retirement plan may include some or all of the following:

- Some plans (e.g., 401(k) plans) allow employee contributions. This gives employees a convenient way to save for retirement, and their contributions are generally made on a pretax basis, reducing their taxable income. In some cases, the employer will match employee contributions up to a certain level. 401(k), 403(b), and 457(b) plans can also allow participants to make after-tax Roth contributions. There's no up front tax benefit, but qualified distributions are entirely free from federal income taxes.
- Funds in a retirement plan grow tax deferred, meaning that any investment earnings are not taxed as long as they remain in the plan. The employee generally pays no income tax until he or she begins to take distributions. Depending on investment performance, this creates the potential for more rapid growth than funds held outside a retirement plan.

Caution: Distributions taken before age 59½ may also be subject to a 10 percent federal penalty tax (25 percent in the case of certain distributions from SIMPLE IRA plans).

- Some plans can allow employees to borrow money from their vested balance in the plan. Plan loans are not taxable under certain conditions, and can provide employees with funds to meet key expenses. Plan loans are not without potential drawbacks, however.
- Funds held in a 403(b), 457(b), SEP, SIMPLE, or qualified employer plan are generally fully shielded from an employee's creditors under federal law in the event of the employee's bankruptcy. This is in contrast to traditional and Roth IRA funds, which are generally protected only up to $1,245,475 (as of April 1, 2013) under federal law, plus any amounts attributable to a rollover from an employer qualified plan or 403(b) plan. (IRAs may have additional protection from creditors under state law.) Funds held in qualified plans and 403(b) plans covered by the Employee Retirement Income Security Act of 1974 (ERISA) are also fully protected under federal law from the claims of the employee's and employer's creditors, even outside of bankruptcy.

Qualified plans vs. nonqualified plans

If you are an employer who is considering setting up a retirement plan, be aware that many different types of plans exist. The choices can sometimes be overwhelming, so it is best to use a systematic approach to narrow your options. Your first step should be to understand the distinction between a qualified retirement plan and a nonqualified retirement plan. Virtually every type of retirement plan can be classified into one of these two groups. So what is the difference?

Qualified retirement plans offer significant tax advantages to both employers and employees. As mentioned, employers are generally able to deduct their contributions, while participants benefit from pretax contributions and tax-deferred growth. In return for these tax benefits, a qualified plan generally must adhere to strict IRC (Internal Revenue Code) and ERISA (the Employee Retirement Income Security Act of 1974) guidelines regarding participation in the plan, vesting, funding, nondiscrimination, disclosure, and fiduciary matters.

In contrast to qualified plans, nonqualified retirement plans are often not subject to the same set of ERISA and IRC guidelines. As you might expect, this freedom from extensive requirements provides nonqualified plans with greater flexibility for both employers and employees. Nonqualified plans are also generally less expensive to establish and maintain than qualified plans. However, the main disadvantages of nonqualified plans are (a) they are typically not as beneficial from a tax standpoint, (b) they are generally available only to a select group of employees, and ©) plan assets are not protected in the event of the employer's bankruptcy.

Most employer-sponsored retirement plans are qualified plans. Because of their popularity and the tax advantages they offer to both you and your employees, it is likely that you will want to evaluate qualified plans first. (See below for a discussion of types of qualified plans.) In addition to providing tax benefits, qualified plans generally promote retirement savings among the broadest possible group of employees. As a result, they are often considered a more effective tool than nonqualified plans for attracting and retaining large numbers of quality employees.

> **Tip:** There are several types of retirement plans that are not qualified plans, but that resemble qualified plans because they have many similar features. These include SEP plans, SIMPLE plans, Section 403(b) plans, and Section 457 plans. See below for descriptions of each type of plan.

Defined benefit plans vs. defined contribution plans

Qualified retirement plans can be divided into two main categories: defined benefit plans and defined contribution plans. In today's environment, most newer employer-sponsored retirement plans are of the defined contribution variety.

Defined benefit plans

The traditional-style defined benefit plan is a qualified employer-sponsored retirement plan that guarantees the employee a specified level of benefits at retirement (e.g., an annual benefit equal to 30 percent of final average pay). As the name suggests, it is the retirement benefit that is defined. The services of an actuary are generally needed to determine the annual contributions that the employer must make to the plan to fund the promised retirement benefits. Defined benefit plans are generally funded solely by the employer. The traditional defined benefit pension plan is not as common as it once was, as many employers have sought to shift responsibility for retirement to the employee. However, a hybrid type of plan called a cash balance plan has gained popularity in recent years.

Defined contribution plans

Unlike a defined benefit plan, a defined contribution plan provides each participating employee with an individual plan account. Here, it is the plan contributions that are defined, not the ultimate retirement benefit. Contributions are sometimes defined in the plan document, often in terms of a percentage of the employee's pretax compensation. Alternatively, contributions may be discretionary, determined each year, with only the allocation formula specified in the plan document. With some types of plans, employees may be able to contribute to the plan. A defined contribution plan does not guarantee a certain level of benefits to an employee at retirement or separation from service. Instead, the amount of benefits paid to each participant at retirement or separation is the vested balance of his or her individual account. An employee's vested balance consists of: (1) his or her own contributions and related earnings, and (2) employer contributions and related earnings to which he or she has earned the right through length of service. The dollar value of the account will depend on the total amount of money contributed and the performance of the plan investments.

Questions to consider when choosing a retirement plan

There are many different factors to consider when choosing a retirement plan for your company. In some cases, more than one type of plan will meet your needs in one vital area. If this is the case, you will need to further refine your choices by looking at how each type of plan meets your needs and their limitations in other key areas.

You can zero in on the key areas of importance and take the first step to finding the right plan by answering the following questions:

- What kind of a business entity do you have? Do you have a sole proprietorship, a partnership, a corporation, a limited liability company filing a corporate return, or a limited liability company filing a partnership return? Some plans are more appropriate for certain types of business entities than for others.
- How many employees do you have right now? How many do you expect to have in one year, three years, and five years from now? Some plans impose limits on the number of employees you can have.
- What is your current compensation and the current compensation range for your employees? What do you expect your compensation and the compensation range for your employees to be over the next year, three years, and five years?
- How old are you, and what is the age range for your employees? Some plans allow contributions to be allocated based on age.
- How much do you want to put away in the retirement plan each year for yourself and/or your employees?
- Who do you want to fund the retirement plan contributions? Just you as the employer? Just the employees? Both the employees and you as the employer?
- If you as the employer are funding at least some of the contributions, what percentage of employee compensation do you want to contribute each year?
- How important is it for you to minimize the amount of contributions to rank-and-file employees, as compared to those for you and other executives?
- How stable or unstable have your company's profits been in the last few years?
- What are the company's expected profits in the next year? Three years? Five years?
- How important is it for you to have flexibility in the amount of retirement plan contributions you make each year, as opposed to contributing a fixed amount or fixed percentage of employee compensation regardless of the company's bottom line?
- How important is it to you to delay vesting and employee control of contributions made by you as the employer?
- How important is it that the retirement plan be simple to understand?
- How important is it that the retirement plan be relatively inexpensive to set up and administer?
- How important is it for the plan to be competitive to attract and/or retain employees?
- How important is it to reduce the current taxable income of you and your employees through employer and employee contributions?
- Do you have a stable workforce, or a high turnover rate among your employees?

Determine which plan meets your goals

Here is where your answers to the above questions can be utilized to determine the most appropriate and beneficial plan for your company. Every type of plan has its own advantages and disadvantages. You can find the right type of plan for your company by:

- Seeing how they stack up against one another in certain key areas, and
- Becoming aware of the benefits and potential drawbacks of each type of plan

To make it easier for you, we have prepared the essential information for you in more than one way. First, we have identified seven key areas that can be used to determine how each type of plan stacks up against other types of plans. In addition, we have provided a brief overview of each type of plan that links to a more detailed discussion of pros and cons and other information. Finally, we have listed types of plans that are generally considered appropriate for certain types of employers.

> **Tip:** In addition to your own research, it is best to have a tax advisor and other professionals help you evaluate your options and select an appropriate retirement plan.

Seven key areas to compare

You can determine the best plan for your company by first seeing how the various types of plans compare in these seven key areas:

1. Maximizing yearly contributions/building retirement benefits for you as the owner
2. Maximizing/weighting contributions for you and other highly compensated employees rather than for lower-compensated employees
3. Flexibility in making contributions each year
4. Building retirement benefits for employees
5. Using the plan as a recruiting tool to attract employees
6. Using the plan to discourage employees from seeking employment elsewhere
7. Utilizing income tax deferral on plan contributions and investment earnings

To determine the right retirement plan for your organization, keep your most important goals in mind as you evaluate plans in terms of these seven key areas.

Specific types of retirement plans

- Defined benefit plan: A defined benefit plan is a qualified retirement plan that guarantees the employee a specified level of benefits at retirement. As the name suggests, it is the retirement benefit that is defined, not the level of contributions to the plan. The services of an actuary are generally needed to determine the annual contributions that the employer must make to the plan to fund the promised retirement benefits. Contributions may vary from year to year, depending on the performance of plan investments and other factors. Defined benefit plans allow a higher level of employer contributions than most other types of plans, and are generally most appropriate for large companies with a history of stable earnings.
- Cash balance plan: A cash balance plan is a type of retirement plan that has become increasingly common in recent years as an alternative to the traditional defined benefit plan. Though it is technically a form of defined benefit plan, the cash balance plan is often referred to as a "hybrid" of a traditional defined benefit plan and a defined contribution plan. This is because cash balance plans combine certain features of both types of plans. Like traditional defined benefit plans, cash balance plans pay a specified amount of retirement benefits. However, like defined contribution plans, participants have individual plan accounts for record-keeping purposes.

- Simplified employee pension (SEP) plan: A simplified employee pension (SEP) plan is a tax-deferred retirement savings plan that allows contributions to be made to special IRAs, called SEP-IRAs, according to a specific formula. Generally, any employer with one or more employees can establish a SEP plan. With this type of plan, you can make tax-deductible employer contributions to SEP-IRAs for yourself and your employees (if any). Except for the ability to accept SEP contributions from employers (allowing more money to be contributed) and certain related rules, SEP-IRAs are virtually identical to traditional IRAs.

- SIMPLE IRA plan: A SIMPLE IRA plan is a retirement plan for small businesses (generally those with 100 or fewer employees) and self-employed individuals that is established in the form of employee-owned IRAs. The SIMPLE IRA plan is funded with voluntary pre-tax employee contributions and mandatory employer contributions. The annual allowable contribution amount is significantly higher than the annual contribution limit for regular IRAs but less than the limit for 401(k) plans.

- SIMPLE 401(k) plan: A SIMPLE 401(k) plan is a retirement plan for small businesses (generally those with 100 or fewer employees) and self-employed persons, including sole proprietorships and partnerships. Structured as a 401(k) cash or deferred arrangement, this plan was devised in an effort to offer self-employed persons and small businesses a tax-deferred retirement plan similar to the traditional 401(k), but with less complexity and expense. The SIMPLE 401(k) plan is funded with voluntary employee pre-tax contributions (and/or after-tax Roth contributions) and mandatory employer contributions. The annual contribution limits are less than the limits applicable to regular 401(k) plans.

- Keogh plan: A Keogh plan, sometimes referred to as an HR-10 plan, is a qualified retirement plan for self-employed individuals and their employees. Only a sole proprietor or a partnership business may establish a Keogh plan--an employee or an individual partner cannot. Keogh plans may be set up as either defined contribution plans or defined benefit plans.

- Profit-sharing plan: A profit-sharing plan is a qualified defined contribution plan that generally allows for some discretion in determining the level of annual employer contributions to the plan. In fact, the business can often contribute nothing at all in a given year if it so chooses. The amount of contributions may be based on a written formula in the plan document, or may be essentially at the employer's discretion. With a typical profit-sharing plan, employer contributions range anywhere from 0 to 25 percent of an employee's compensation.

- Age-weighted profit-sharing plan: An age-weighted profit-sharing plan is a type of profit-sharing plan in which contributions are allocated based on the age of plan participants as well as on their compensation. This type of plan benefits older participants (generally, those having fewer years until retirement) by allowing them to receive much larger contributions to their accounts than younger participants.

- New comparability plan: A new comparability plan is a variation of the traditional profit-sharing plan. This type of plan is unique in that plan participants are divided into two or more classes, generally based on age and other factors. A new comparability plan can often allow businesses to maximize plan contributions to higher-paid workers and key employees and minimize contributions to the other employees.

- 401(k) plan: A 401(k) plan, sometimes called a cash or deferred arrangement (CODA), is a qualified defined contribution plan in which employees may elect to defer receipt of income. The amount deferred consists of pretax dollars (and/or after-tax Roth contributions) that are invested in the employee's plan account. Often, the employer matches all or part of the employees' deferrals to encourage employee participation. The 401(k) plan is the most widely used type of retirement plan.

- Money purchase pension plan: A money purchase pension plan is a qualified defined contribution plan in which the employer makes an annual contribution to each employee's account in the plan. The amount of the contribution is determined by a set formula that cannot be changed, regardless of whether or not the corporation is showing a profit. Typically, the business's contribution will be based on a certain percentage of an employee's compensation.

- Target benefit plan: A target benefit plan is a hybrid of a defined benefit plan and a money purchase pension plan. It resembles a defined benefit plan in that the annual contribution is based on the amount needed to fund a specific amount of retirement benefits (the "target" benefit). It resembles a money purchase pension plan in that the annual contribution is fixed and mandatory, and the actual benefit received by the participant at retirement is based on his or her individual balance.

- Thrift/savings plan: A thrift or savings plan is a qualified defined contribution plan that is similar to a profit-sharing plan, but has features that provide for (and encourage) after-tax employee contributions to the plan. The employee must pay tax on his or her own contributions before they are invested in the plan. Typically, a thrift/savings plan supplements after-tax employee contributions with matching employer contributions. Many thrift plans have been converted into 401(k) plans.

- Employee stock ownership plan (ESOP): An employee stock ownership plan, a type of stock bonus plan, is a qualified defined contribution plan in which participants' accounts are invested in stock of the employer corporation. This type of plan is funded solely by the employer. When a plan participant retires or leaves the company, the participant receives his or her vested balance in the form of cash or employer securities.

- Payroll deduction IRA plan: A payroll deduction IRA plan is a type of arrangement that you can establish to allow your employees to make payroll deduction contributions to IRAs (traditional or Roth). It can be offered to your employees instead of a more conventional retirement plan (such as a 401(k) plan), or to supplement such a plan. Each of your participating employees establishes and maintains a separate IRA, and elects to have a certain amount deducted from his or her pay on an after-tax basis. The amount is then invested in the participant's designated IRA. Payroll deduction IRAs are generally subject to the same rules that normally to IRAs.

In addition, there are two types of retirement plans that are especially popular with tax-exempt organizations:

- Section 403(b) plan: A Section 403(b) plan, also known as a tax-sheltered annuity, is a type of nonqualified plan under which certain government and tax-exempt organizations (e.g., schools and religious organizations) can purchase annuity contracts or contribute to custodial accounts for eligible employees. There are two types of 403(b) plans: salary-reduction plans and employer-funded plans. Even though section 403(b) plans are not qualified plans, they are subject to many of the same requirements that apply to qualified plans. Like 401(k) plans, 403(b) plans can (but are not required to) allow participants to make after-tax Roth contributions.

- Section 457(b) plan: A Section 457(b) plan is a type of nonqualified deferred compensation plan for governmental units, governmental agencies, and non-church-controlled tax-exempt organizations. It is similar to a 401(k) plan and subject to some of the same rules. Like 401(k) plans, 457(b) plans can (but are not required to) allow participants to make after-tax Roth contributions.

Retirement plans most appropriate for small businesses and the self-employed

If you are self-employed, a sole proprietor, or a partner and want to establish a retirement plan, there are five types of plans you should consider:

- Keogh plan
- Simplified employee pension (SEP) plan
- SIMPLE IRA plan
- SIMPLE 401(k) plan
- Individual 401(k) plan

Retirement plans most appropriate for corporations

If your form of business entity is a corporation and you want to establish a retirement plan, you should consider the following types of defined contribution plans:

- Defined benefit plan
- 401(k) plan

- Profit-sharing plan
- Age-weighted profit-sharing plan
- New comparability plan
- Money purchase pension plan
- Thrift/savings plan
- Employee stock ownership plan (ESOP)
- Simplified employee pension (SEP) plan
- SIMPLE IRA plan
- SIMPLE 401(k) plan

Retirement plans for tax-exempt organizations

If you are involved with a tax-exempt or government organization and you want to establish a retirement plan, your options typically include a qualified plan, section 403(b) plan, and/or section 457 plan. However, not every employer is eligible to maintain every type of plan. For example, governmental employers generally can not adopt 401(k) plans. And only certain religious, public educational, and 501(c)(3) tax-exempt organizations can maintain 403(b) plans. For more detailed information, see our separate topic discussion, Retirement Plans for Tax-Exempt Organizations.

Employer Retirement Plans

As an employer, you may want to establish one or more retirement plans for yourself or your employees. This chart highlights some of the common types of retirement plans available to you. Choosing the right one for your situation is a critical decision. (The numbers shown are for the 2013 tax year.)

QUALIFIED EMPLOYER PLANS

- Code Section 401(a) rules apply[1]
- ERISA applies (except governmental, church, and employer-only plans)
- Can be adopted by most employers[2]
- Participant loans may be available
- Immediate or deferred vesting (except SIMPLE/Safe-Harbor 401(k)s)
- Highest level of protection from creditors (ERISA plans)

DEFINED CONTRIBUTION PLANS

- Separate employee accounts
- Employee bears investment risk
- Investments may be employee directed
- Not insured by PGGC

Employee Stock Ownership Plans

Participant accounts invested primarily in employer stock

Money Purchase Pension Plans

- Required annual employer contributions
- Joint survivor rules apply

Types:
Traditional Money Purchase—fixed contribution, typically percentage of pay
Target Benefit Plan—Fixed contribution is amount actuarially determined to fund projected retirement benefit, but actual benefit based solely on account balance

DEFINED BENEFIT PLANS

- Funding rules apply: actuary generally required
- Joint and survivor annuity rules apply
- PBGC premiums may be required
- Employer bears investment risk

Traditional Defined Benefit Plans

Guarantees a specific benefit at retirement, typically based on age, years of service, and pay

Cash Balance Plans

Benefit is based on hypothetical account balance

412(i) Plans

- Like traditional defined benefit plan but financed exclusively with life insurance and annuity contracts
- Exempt from funding rules

Profit-Sharing Plans

- Discretionary annual employer contributions
- Joint and survivor rules may be avoided

Types:
Traditional Profit-Sharing Plans
- Discretionary employer contribution to 25% of pay

Cross-Tested Plans (tested under defined benefit nondiscrimination rules)
Age-weighted Plans
- Contributions based on age and compensation

New Comparability Plans
- Employees grouped into classes based on age/position/other factors

401(k) Plans (salary deferral plans)
Traditional 401(k) Plans
- Maximum deferral/catch-up $17,500/$5,500
- Additional PS contribution allowed
- Annual discrimination testing

Individual or Employer-only 401(k) Plans
- Covers only business owners (and spouse)
- Like traditional 401(k) but ERISA doesn't apply

Safe-Harbor 401(k) Plans
- Like traditional 401(k) but mandatory employer contribution (fully vested)
- No testing for deferrals/employer mandatory contribution
- Special top-heavy rules

SIMPLE 401(k) Plans
- Maximum deferral/catch-up $12,000/$2,500
- Mandatory employer contribution (fully vested)
- No discrimination testing
- Maximum 100 employees
- Top-heavy rules do not apply

IRA-BASED PLANS

- Can be adopted by most employers[3]
- Separate IRAs for each participant
- Employee directs investment
- Employee bears investment risk
- Broad participation requirements
- Limited ERISA compliance
- Joint and survivor rules do not apply
- Not insured by PBGC
- No loans
- Immediate vesting

SEP IRA

- Discretionary annual employer contribution
- No employee deferrals permitted[4]
- May be integrated with Social Security
- Top-heavy rules and §415 limits apply

SIMPLE IRA

- Employer contribution required
- Employee deferrals permitted
- Maximum deferral/catch-up $12,000/$2,500
- Maximum 100 employees

Payroll Deduction IRA

- Employees contribute to IRA through payroll deduction
- Very limited employer involvement to avoid ERISA
- May be Roth or Traditional IRAs
- Regular IRA limits apply
- Maximum contribution/catch-up $5,500/$1,000

PLANS FOR GOVERNEMNTAL AND TAX-EXEMPT EMPLOYERS

- Separate employee accounts
- Investments may be employee-directed
- Employee bears investment risk
- Governmental plans exempt from ERISA
- Not insured by PBGC
- Loans may be available
- Joint and survivor rules generally do not apply

403(b) Plans

- Can be adopted by tax-exempt charitable organizations and public school employers
- Salary deferrals permitted
- May be employer funded (immediate or deferred vesting)
- Employer contributions subject to discrimination testing
- ERISA may apply to tax-exempt employers
- Funded with annuities or mutual funds
- Maximum deferral/catch-up $17,500/$5,500[6]
- Section 415 limits apply

457(b) Plans

- Can be adopted by most tax-exempt organizations and state and local governments[5]
- Salary deferrals permitted
- May be employer funded (immediate or deferred vesting)
- Tax-exempt employers subject to ERISA; nongovernmental plans typically limited to top-hat group
- Maximum deferral/catch-up $17,500/$5,500[6]

1. Minimum coverage, vesting, discrimination, deduction, Social Security integration, section 415 limits, top-heavy rules, and other rules may apply. State and local government plans are exempt from many section 401(a) requirements. Special rules may apply to certain church plans, tax-exempt organizations, and collectively bargained plans.
2. Governmental entities may not adopt a 401(k) plan. Employer with more than 100 employees (ignoring employees earning less than $5,000) may not adopt a SIMPLE 401(k) plan.
3. Employer with more than 100 employees (ignoring employees earning less than $5,000) may not adopt a SIMPLE IRA plan.
4. For plans adopted after 1996.
5. May not be adopted by churches or church-controlled organizations.
6. Special catch-up limits may apply. Age 50 $5,500 catch-up limit does not apply to nongovernmental 457(b) plans.

IRA and Retirement Plan Limits for 2013

IRA contribution limits

The maximum amount you can contribute to a traditional IRA or Roth IRA in 2013 increases to $5,500 (or 100% of your earned income, if less), up from $5,000 in 2012. The maximum catch-up contribution for those age 50 or older remains at $1,000. (You can contribute to both a traditional and Roth IRA in 2013, but your total contributions can't exceed this annual limit.)

Traditional IRA deduction limits for 2013

The income limits for determining the deductibility of traditional IRA contributions have also increased for 2013 (for those covered by employer retirement plans). For example, you can fully deduct your IRA contribution if your filing status is single/head of household, and your income ("modified adjusted gross income," or MAGI) is $59,000 or less (up from $58,000 in 2012). If you're married and filing a joint return, you can fully deduct your IRA contribution if your MAGI is $95,000 or less (up from $92,000 in 2012). If you're not covered by an employer plan but your spouse is, and you file a joint return, you can fully deduct your IRA contribution if your MAGI is $178,000 or less (up from $173,000 in 2012).

If your 2013 federal income tax filing status is:	Your IRA deduction is reduced if your MAGI is between:	Your deduction is eliminated if your MAGI is:
Single or head of household	$59,000 and $69,000	$69,000 or more
Married filing jointly or qualifying widow(er)*	$95,000 and $115,000 (combined)	$115,000 or more (combined)
Married filing separately	$0 and $10,000	$10,000 or more

*If you're not covered by an employer plan but your spouse is, your deduction is limited if your MAGI is $178,000 to $188,000, and eliminated if your MAGI exceeds $188,000.

Roth IRA contribution limits for 2013

The income limits for determining how much you can contribute to a Roth IRA have also increased. If your filing status is single/head of household, you can contribute the full $5,500 to a Roth IRA in 2013 if your MAGI is $112,000 or less (up from $110,000 in 2012). And if you're married and filing a joint return, you can make a full contribution if your MAGI is $178,000 or less (up from $173,000 in 2012). (Again, contributions can't exceed 100% of your earned income.)

If your 2013 federal income tax filing status is:	Your Roth IRA contribution is reduced if your MAGI is:	You cannot contribute to a Roth IRA if your MAGI is:
Single or head of household	More than $112,000 but less than $127,000	$127,000 or more
Married filing jointly or qualifying widow(er)	More than $178,000 but less than $188,000 (combined)	$188,000 or more (combined)
Married filing separately	More than $0 but less than $10,000	$10,000 or more

Employer retirement plans

The maximum amount you can contribute (your "elective deferrals") to a 401(k) plan has increased for 2013. The limit (which also applies to 403(b), 457(b), and SAR-SEP plans, as well as the Federal Thrift Plan) is $17,500 in 2013 (up from $17,000 in 2012). If you're age 50 or older, you can also make catch-up contributions of up to $5,500 to these plans in 2013 (unchanged from 2012). (Special catch-up limits apply to certain participants in 403(b) and 457(b) plans.)

If you participate in more than one retirement plan, your total elective deferrals can't exceed the annual limit ($17,500 in 2013 plus any applicable catch-up contribution). Deferrals to 401(k) plans, 403(b) plans, SIMPLE plans, and SAR-SEPs are included in this limit, but deferrals to Section 457(b) plans are not. For example, if you participate in both a 403(b) plan and a 457(b) plan, you can defer the full dollar limit to each plan--a total of $35,000 in 2013 (plus any catch-up contributions).

The amount you can contribute to a SIMPLE IRA or SIMPLE 401(k) plan has increased to $12,000 for 2013, up from $11,500 in 2012. The catch-up limit for those age 50 or older remains unchanged at $2,500.

Plan type:	Annual dollar limit:	Catch-up limit:
401(k), 403(b), governmental 457(b), SAR-SEP, Federal Thrift Plan	$17,500	$5,500
SIMPLE plans	$12,000	$2,500

Note: Contributions can't exceed 100% of your income.

The maximum amount that can be allocated to your account in a defined contribution plan (for example, a 401(k) plan or profit-sharing plan) in 2013 is $51,000 (up from $50,000 in 2012), plus age-50 catch-up contributions. (This includes both your contributions and your employer's contributions. Special rules apply if your employer sponsors more than one retirement plan.)

Finally, the maximum amount of compensation that can be taken into account in determining benefits for most plans has increased to $255,000, up from $250,000 in 2012; and the dollar threshold for determining highly compensated employees remains unchanged at $115,000.

Retirement Plans Most Appropriate for Corporations

Introduction

If you are involved with a corporation, one of your primary goals is to maximize the profitability of the business. Your workforce is, of course, one of the keys to achieving this goal. Most successful businesses strive to attract and retain the highest-quality employees, and to promote productivity. One of the benefits that many employees value most is a good retirement plan.

Retirement plans encourage systematic savings for the future and, in the case of qualified plans (and some nonqualified plans), can offer significant tax benefits for you, your business, and your employees. Finding the right retirement plan for your business can sometimes be a challenge, however. You can begin the selection process by identifying the types of plans that are most appropriate for a corporation.

Qualified vs. nonqualified plans

Qualified retirement plans offer significant tax advantages to both employers and employees. Employers are generally permitted to deduct their contributions on their federal income tax returns, while participants can benefit from pretax or after-tax contributions and tax-deferred (and in some cases, tax-free) growth. In return for these tax benefits, a qualified plan must adhere to strict IRC (Internal Revenue Code) and ERISA (Employee Retirement Income Security Act) guidelines regarding participation in the plan, vesting, funding, nondiscrimination, disclosure, and fiduciary matters.

In contrast to qualified plans, nonqualified retirement plans are often not subject to the same set of ERISA and IRC guidelines. As you might expect, this freedom from extensive requirements often provides nonqualified plans with greater flexibility for both employers and employees. In addition, nonqualified plans are often less expensive to establish and maintain than qualified plans. Generally, the main disadvantages of nonqualified plans are (a) they are typically not as beneficial as qualified plans from a tax standpoint, (b) they are generally available only to a select group of employees, and (c) plan assets are not protected in the event of the employer's bankruptcy. For these reasons, qualified plans usually appeal to the largest number of employers and employees.

Defined benefit plans vs. defined contribution plans

Qualified retirement plans can be divided into two main categories: defined benefit plans and defined contribution plans. In today's environment, most new employer-sponsored retirement plans are defined contribution plans.

Defined benefit plans

The traditional defined benefit plan (a "traditional pension") is a qualified employer-sponsored retirement plan that guarantees the employee a specified level of benefits at retirement (for example, an annual bebenfit equal to 30 percent of an employee's average final pay). As the name suggests, it is the retirement benefit that is defined, not the level of contributions to the plan. The services of an actuary are generally needed to determine the annual contributions that an employer must make to the plan to fund the promised retirement benefits. Contributions may vary from year to year, depending on the performance of plan investments and other factors. Defined benefit plans are generally funded solely by the employer. The traditional defined benefit pension plan is not as common as it once was, as many employers have sought to shift responsibility for retirement to employees. However, a hybrid type of plan called a "cash balance plan" has gained popularity in recent years.

Defined contribution plans

Unlike a defined benefit plan, a defined contribution plan provides each participating employee with an individual plan account. Here, it is the plan contributions that are defined, not the ultimate retirement benefit. Contributions are sometimes defined in the plan document, often in terms of a percentage of the employee's pretax compensation. Alternatively, contributions may be discretionary, determined each year, with only the allocation formula specified in the plan document. With some types of plans, employees may be able to contribute to the plan. A defined contribution plan does not guarantee a certain level of benefits to an employee at retirement or separation from service. Instead, the amount of benefits paid to each participant at retirement or separation is the vested balance of his or her individual account. An employee's vested balance consists of: (1) his or her own contributions and related earnings, and (2) employer contributions and related earnings to which he or she has earned the right through length of service. The dollar value of the account will depend on the total amount of money contributed and the performance of the plan investments.

Specific types of retirement plans

The following types of retirement plans are generally considered most appropriate for a corporation:

- 401(k) plan: A 401(k) plan, sometimes called a cash or deferred arrangement (CODA), is a qualified defined contribution plan in which employees may elect to defer receipt of income. The amount deferred consists of pretax dollars that are invested in the employee's plan account. The employer may match all or part of the employees' deferrals to encourage employee participation. The 401(k) plan is the most widely used type of retirement plan. 401(k) plans can also offer employees the opportunity to make after-tax Roth contributions.

- Profit-sharing plan: A profit-sharing plan is a qualified defined contribution plan that generally allows for some discretion in determining the level of annual employer contributions to the plan. In fact, the business can often contribute nothing at all in a given year if it so chooses. The amount of contributions may be based on a written formula in the plan document, or may be essentially at the employer's discretion. With a typical profit-sharing plan, employer contributions range anywhere from 0 to 25 percent of an employee's compensation.

- Age-weighted profit-sharing plan: An age-weighted profit-sharing plan is a type of profit-sharing plan in which contributions are allocated based on the age of plan participants as well as on their compensation. This type of plan benefits older participants (generally, those having fewer years until retirement) by allowing them to receive much larger contributions to their accounts than younger participants.

- New comparability plan: A new comparability plan is a variation of the traditional profit-sharing plan. This type of plan is unique in that plan participants are divided into two or more classes, generally based on age and other factors. A new comparability plan can often allow businesses to maximize plan contributions to higher-paid workers and key employees and minimize contributions to the other employees.

- Money purchase pension plan: A money purchase pension plan is a qualified defined contribution plan in which the employer makes an annual contribution to each employee's account in the plan. The amount of the contribution is determined by a set formula that cannot be changed, regardless of whether the corporation is showing a profit. Typically, the business's contribution will be based on a certain percentage of an employee's compensation.

- Target benefit plan: A target benefit plan is a hybrid of a defined benefit plan and a money purchase pension plan. It resembles a defined benefit plan in that the annual contribution is based on the amount needed to fund a specific amount of retirement benefits (the "target" benefit). It resembles a money purchase pension plan in that the annual contribution is fixed and mandatory, and the actual benefit received by the participant at retirement is based on his or her individual balance.

- Defined benefit plan: A defined benefit plan is a qualified retirement plan that guarantees the employee a specified level of benefits at retirement (for example, an annual benefit equal to 30 percent of final average pay). As the name suggests, it is the retirement benefit that is defined, not the level of contributions to the plan. The services of an actuary are generally needed to determine the annual contributions that an employer must make to the plan to fund the promised benefits. Contributions may vary from year to year, depending on the performance of plan investments and other factors. Defined benefit plans allow a higher level of employer contributions than most other types of plans, and are generally most appropriate for large companies with a history of stable earnings. Defined benefit plans are generally funded solely by the employer.

- Cash balance plan: A cash balance plan is a type of qualified retirement plan that has become increasingly common in recent years as an alternative to the traditional defined benefit plan. Though it is technically a form of defined benefit plan, the cash balance plan is often referred to as a "hybrid" of a traditional defined benefit plan and a defined contribution plan. This is because cash balance plans combine certain features of both types of plans. Like traditional defined benefit plans, cash balance plans pay a specified amount of retirement benefits. However, like defined contribution plans, participants have individual plan accounts for record-keeping purposes.

- Payroll deduction IRA plan: A payroll deduction IRA plan is a type of arrangement that you can establish to allow your employees to make payroll deduction contributions to IRAs (traditional or Roth). It can be offered to your employees instead of a more conventional retirement plan (such as a 401(k) plan), or to supplement such a plan. Each of your participating employees establishes and maintains a separate IRA, and elects to have a certain amount deducted from his or her pay on an after-tax basis. That amount is then invested in the participant's designated IRA. Payroll deduction IRAs are generally subject to the same rules that normally apply to IRAs.

- SEP plan: A simplified employee pension (SEP) plan is a tax-deferred retirement savings plan that allows contributions to be made to special IRAs, called SEP-IRAs, according to a specific formula. Generally, any employer with one or more employees can establish a SEP plan. With this type of plan, you can make tax-deductible employer contributions to SEP-IRAs for yourself and your employees (if any). Except for the ability to accept SEP contributions from employers (allowing more money to be contributed) and certain related rules, SEP-IRAs are virtually identical to traditional IRAs.

- SIMPLE IRA plan: A SIMPLE IRA plan is a retirement plan for small businesses (generally those with 100 or fewer employees) and self-employed individuals that is established in the form of employee-owned IRAs. The SIMPLE IRA plan is funded with voluntary pre-tax employee contributions and mandatory employer contributions. The annual allowable contribution amount is significantly higher than the annual contribution limit for traditional and Roth IRAs, but less than the limit for 401(k) plans.

- SIMPLE 401(k) plan: A SIMPLE 401(k) plan is a qualified retirement plan for small businesses (generally those with 100 or fewer employees) and self-employed persons, including sole proprietorships and partnerships. Structured as a 401(k) cash or deferred arrangement, this plan was devised in an effort to offer self-employed persons and small businesses a tax-deferred retirement plan similar to the traditional 401(k), but with less complexity and expense.

- Thrift/savings plan: A savings or thrift plan is a qualified defined contribution plan that is similar to a profit-sharing plan, but has features that provide for (and encourage) after-tax employee contributions to the plan. The employee must pay tax on his or her own contributions before they are invested in the plan. Typically, a thrift/savings plan supplements after-tax employee contributions with matching employer contributions. Many thrift plans have been converted into 401(k) plans.

- Employee stock ownership plan (ESOP): An ESOP, a type of stock bonus plan, is a qualified defined contribution plan in which participants' accounts are invested in stock of the employer corporation. This type of plan is funded solely by the employer. When a plan participant retires or leaves the company, the participant receives his or her vested balance in the form of cash or employer securities.

Tip: Employers who maintain qualified retirement plans can also allow employees to make their regular IRA contribution--traditional or Roth--to a special account set up under the retirement plan. These accounts, called "deemed IRAs," function just like regular IRAs.

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