Employer-sponsored retirement plans: Which one is right for you?

If you're like most business owners, you always think two steps ahead. Investing in an employer-sponsored retirement plan is a great way to think ahead for your business and your employees. By showing employees that you care about their future, you build trust and loyalty with your staff. A retirement plan can help give your business a distinct advantage when looking to attract and retain top talent.

So where do you begin? Before you choose which type of retirement plan is right for your business, it's important to first understand some of the nuances of each plan and how they work.

Use this easy-to-understand chart to determine which plan is right for your business. Keep in mind that you can always change the type of plan you offer as your needs – and your business – grow.

While reviewing the different options, consider these questions to help you home in on the plan that's best for you:

- How many employees do you have?
- What type of tax benefits are you looking for?
- Do you want to contribute to the plan?
- How much administrative effort are you willing to put in?
- Do you want to allow employee payroll deferrals?

	Savings Incentive Match Plan for Employees (SIMPLE) IRA	Simplified Employee Pension (SEP) IRA	Traditional 401(k)
Typical plan sponsors	Small businesses with 100 or fewer employees and no other retirement plan	Self-employed, sole proprietors, partnerships and small businesses of any size	Business owner, company or employer
Key benefits	Easier to set up and administer than a 401(k) Allows contributions from both employer and employee – but maximum contributions are significantly lower than maximum allowable contributions for a 401(k). In addition, employer contributions for employees are mandatory, unlike 401(k) where they are optional	Easier to set up and administer than a 401(k) Flexibility to contribute or not For higher-income individuals, may allow larger contributions than SIMPLE IRA	Allows contributions from both employer and employee Roth option for tax diversification Limited loans available Allows larger employee contributions than those allowed by a SIMPLE or SEP
How it is funded	Elective employee salary deferrals and mandatory employer contributions	Discretionary employer contributions	Discretionary employer and employee contributions
Tax advantages	Employer contributions tax deductible as business expense Tax-deferred growth potential (Roth options available) Pre-tax contributions for participating employees	Employer contributions tax deductible as business expense Tax-deferred growth potential (Roth options available) Ideal for self-employed business owners with no employees	Employer contributions tax deductible as business expense Employee contributions either pre-tax or post-tax (Roth option) Tax-deferred growth potential (qualified withdrawals from Roth are tax-free)
Employee contribution limits (2024 plan year)	Up to 100% of compensation to a maximum of: 2024: $16,000 ($19,500 if age 50 or older)[1]	Not allowed (and no catch up contributions for employees age 50 or older)	2024: $23,000 ($30,500 if age 50 or older) *Note: Total contribution by employee and employer cannot exceed maximum employer contribution amount below.*
Employer contribution limits (2024 plan year)	Match participant deferrals up to 3% of compensation; or Contribute 2% of compensation to all eligible employees, up to $6,900 for 2024.[2]	0% to 25% of compensation to a maximum of: 2024: $69,000 per employee	100% of compensation to a maximum of: 2024: $69,000 per person ($76,500 if age 50 or older)
Flexibility to change employer contributions	Yes, may reduce matching contributions to as low as 1% in two of every five years.[3]	Yes, contribution each year is not required, but each eligible employee must generally receive same percentage of compensation as the business owner receives.	Yes, contribution each year is not required.
Vesting of contributions	Immediate	Immediate	Employee: Immediate Employer: Flexible; can be immediate, graded or cliff
Annual tax filings	None	None	Yes, Form 5500
Employee eligibility requirements[4]	Can exclude certain non-resident aliens and employees who: • Earned less than $5,000 in any two previous years and are expected to earn less than $5,000 in the current year • Are covered under a collective bargaining agreement	Can exclude certain non-resident aliens and employees who: • Are under age 21 • Earn less than $750 annually • Haven't worked for you in three of the past five years • Are covered under a collective bargaining agreement	Customizable; can exclude employees who: • Are under age 21 • Have not completed one year of service; or • Are covered by a collective bargaining agreement that does not provide for participation in the plan, if retirement benefits were the subject of good faith bargaining
Withdrawals	Subject to federal income taxes; must start at age 73 Early withdrawals before age 59½ may incur 25% penalty in first two years of plan participation and 10% thereafter.	Subject to federal income taxes; must start at age 73 Early withdrawals before age 59½ may incur 10% penalty.	Subject to federal income taxes; must start at age 73 Early withdrawals before age 59½ may incur 10% penalty.
Deadline to contribute	Employer: Tax filing deadline, including filed extensions Employee: Payroll deductions	Employer's tax filing deadline, including filed extensions	Employer's tax filing deadline, including filed extensions Plan must be established by employer's fiscal year-end.

For more information about how a Traditional 401(k) from J.P. Morgan can meet your needs, please visit jpmorgan.com/everyday401kform.

For more information about how a SIMPLE or SEP IRA can meet your needs, please contact your financial advisor.

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Source: IRS.gov
1.Starting in 2024, under Section 117 of SECURE 2.0, for employers with 25 or fewer employees, employee contributions may be up to 110% of the contribution limit (and 110% of the catchup where applicable). Employers with 26-100 employees must meet certain requirements in order to provide the additional 10% deferral limit.
2. Starting in 2024, under section 117 of SECURE 2.0, businesses with 25 or fewer employees may make an additional employer contribution of up to 10% of employee wages (capped at $5,000 and indexed for inflation).
3. Employees must be notified of the lower match within a reasonable period of time before the 60-day election period during which employees can enter into salary reduction agreements.
4. Qualified distributions: withdrawals after the account has been opened five years and the account owner is at least age 59½.