

Retirement options for business clients



Deciding Which Plan Is Right

The most common types of small business retirement plans include SEP IRA, SIMPLE IRA, and 401(k) plans. When helping your clients decide which retirement plan offering is right for their business, consider their business size, their self-employment income, and preferences regarding the plan's design and features. Let's take a look at how the different plans compare in 2021.¹

	SEP IRA	SIMPLE IRA	401(k) plan
Business Size	Available to any size business	Available up to 100 employees	Any
Contribution type(s)	Employer only	Employer Employee (contributions optional)	Employer (optional) Employee elective
Annual Employees Deferral Limit	Not Applicable	\$13,500	\$19,500
Vesting	Contributions 100% vested immediately	Contributions 100% vested immediately	Various vesting schedules allowed
Potential fits	One-man S corps, family-owned businesses with no other employees	Small businesses (under 10 employees)	Businesses desiring both plan design flexibility and ability to maximize contributions

State-sponsored retirement plans

Several states now require that employers participate in a retirement program sponsored by their state if they do not already offer a retirement plan for their employees' benefit. The plan-type may vary by state, so it is important to be aware of each state's provisions.

As of July 1, 2021, the following are the first states to enact legislation requiring employers to either offer their own employer sponsored retirement plan or participate in the state sponsored plan.

- California
- Colorado
- Connecticut
- Illinois
- Maine
- Maryland
- Massachusetts
- New Jersey
- New Mexico
- New York
- Oregon
- Washington
- Vermont
- Virginia

State-Sponsored Plans	VS.	Employer-sponsored plans
No employer contributions		Eligible for employer contributions
Employee pays all the plan costs		Typically paid for by employer
Limited education and support		Flexible plan design

PwC's 2021 Financial Wellness survey found that 63% of full-time employees say that their financial stress has increased since the start of the pandemic.



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SECURE Act

Setting Every Community Up for Retirement Enhancement Act or SECURE Act contains several changes designed to expand and facilitate retirement savings, and provides new incentives for businesses to offer retirement plans. These changes will take effect for 2021¹ retirement plans.

Important changes introduced with SECURE Act

- Increases limits for start-up tax credit – employers are eligible to an annual start-up tax credit for three years. You could get credits of up to \$5,000 per year for the first three years just for starting a plan²
- Automatic Enrollment tax credit³ – allows employers who adopt the automatic enrollment feature in their retirement plan to receive a credit of \$500 per year for three years
- New eligibility requirements for part-time employees – employees that complete 1000 hours of service in 1 year or 500 hours in each of three consecutive years are now permitted to participate in 401(k) plans
- Penalty-free withdrawals of up to \$5,000 for expenses related to the birth or adoption of a child
- Required minimum distribution age increased to 72 from 70 ½

1 All limits in this chart are as of 2021.

2 Amount of the actual credit is limited to 50% of actual plan startup and administrative costs. The maximum credit shown is only available to plans that cover at least 20 non-highly compensated employees and that offer automatic enrollment - your tax credit may be lower depending on your situation. ADP does not provide tax advice, and you should consult with your own tax professional.

3 Plan must meet requirements of Eligible Automatic Contribution Arrangement (EACA) as defined in Internal Revenue Code Section 414(w)(3).



Help your clients get more from their retirement plan

If you would like more information about ADP's retirement plan offerings, please contact a licensed ADP Retirement Services District Manager. This information is provided courtesy of:

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