

Defined Contribution Plans Compared

Benefit or Feature	Plan Type			
	SEP	Traditional Defined Contribution Plan	401(k) Plan	SIMPLE IRA
Employer contributions deductible?	Yes	Yes	Yes	Yes
Employer contributions currently taxable to participant?	No	No	No	No
Earnings accumulate income tax deferred?	Yes	Yes	Yes	Yes
Distributions can be tax favored using 10-year income averaging?	No	Maybe ¹	Maybe ¹	No
Contribution benefit base is total compensation up to \$265,000?	Yes	Yes	Yes	Effectively \$416,667 ²
Maximum plan annual employer deduction	25% ³ of compensation of all covered participants	25% of compensation of all covered participants	25% of compensation of all covered participants	Match deferral up to 3% of compensation or 2% of compensation to all eligible employees
Maximum participant allocation	Lesser of 25% of compensation or \$53,000	Lesser of 100% of compensation or \$53,000	Lesser of 100% of compensation or \$53,000	Lesser of 100% of compensation or \$25,000 ⁴
Catch-up provisions for those age 50 and older?	No	Yes \$6,000	Yes \$6,000	Yes \$3,000

¹ Those born before 1936 may be able to elect 10-year averaging or capital gain treatment; these strategies are not available to those born after 1935.

² The \$416,667 amount is based on 3% of the 2015 contribution limit of \$12,500 (or \$12,500 divided by .03).

³ See the section in IRS Publication 590, Individual Retirement Arrangements (IRAs) on SEPs.

⁴ For 2015, includes a maximum employee contribution of \$12,500, plus a dollar for dollar employer match.

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	SEP	Traditional Defined Contribution Plan	401(k) Plan	SIMPLE IRA
Employer contributions required?	No	Profit sharing Maybe ¹ Money purchase Yes	Maybe ¹	Yes, at 2% of compensation to all eligible employees or dollar for dollar up to 3% of compensation
Employer non-matching contributions discretionary?	Yes	Profit sharing = Yes Money purchase = No	Generally, yes ²	No
Discretionary employer matching contributions allowed?	No	No	Yes	No
How is employer non-matching contribution allocated?	Prorata by compensation	Prorata by compensation or integrated with Social Security	Prorata by compensation, or Integrated with Social Security, or Age-weighted, or Cross tested	Prorata by compensation or up to 3% match on deferrals
Employee contributions Required?	No	No	No	No
Employee contributions Permitted?	No	Rarely	Yes	Yes
Employee vesting in employer contributions	Always 100%	May be graded over time	May be graded over time	Always 100%

¹ Top-heavy minimum employer contribution may be required.

² Employer non-matching contributions may be required to meet nondiscrimination tests, to comply with top heavy minimum requirements, or if the plan is combined with another plan such as a defined benefit plan.

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Required discrimination test				
Coverage?	Yes	Yes	Yes	No
Contributions?	Yes	Yes	Yes	No
Deferral rates of highly compensated/non-highly compensated?	N/A	N/A	Yes	N/A
Can exclude employees from plan participation on basis of age, length of service, or part-time employment?	Yes ¹	Yes ²	Yes ³	No ⁴
Can exclude employees from plan participation for union membership or non-resident aliens with no US source income?	Yes	Yes	Yes	Yes
Investments				
Self directed by participants (most plans impose some practical considerations) and/or	Can only be directed by participants	Yes	Yes	Yes
Directed by the trustee, must be diversified and prudent	N/A	Yes	Yes	N/A
Is self-dealing prohibited between the plan and a number of related persons?	Yes	Yes	Yes	Yes
Plan may recognize employer contributions or benefits of Social Security?	Yes, but IRS form 5305 SEP may not be used	Yes	Yes	No

¹ Must allow participation if at least age 21, performed service in 3 of the last 5 years, and earned \$600 in the current year.

² Must allow participation if at least age 21 and performed 1 or 2 years (1,000 hours per year) of service.

³ Must allow participation if at least age 21 and has performed 1 year (1,000 hours) of service.

⁴ \$5,000 income test applies.

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Participants who are favored	Younger	Younger	Younger	Younger
How much will there be at retirement?				
Investment return affects retirement benefits?	Yes	Yes	Yes	Yes
Benefits guaranteed at retirement?	No	No	No	No
Who bears investment risk?	Employee	Employee	Employee	Employee
Top heavy requirements, if applicable	Up to 3% of compensation	Up to 3% of compensation ¹	Up to 3% of compensation	No
Ease of understanding by participants	Easy	Easy	Easy	Easy
Can life insurance be provided?	No	Yes	Yes	No
Can participants have a traditional IRA or Roth IRA? ²	Yes	Yes	Yes	Yes
Forfeitures are used for what purpose	N/A	Reduce employer contribution or are reallocated among participants	Reduce employer contribution or are reallocated among participants	N/A
Can participants make loans subject to strict rules?	No	Yes	Yes	No
Are hardship withdrawals permitted under well-defined circumstances? (Participant cannot defer for 6 months thereafter.)	No	Maybe ³	Yes	No

¹ This amount may be greater in some circumstances.

² Subject to other requirements.

³ Hardship withdrawals are permitted for profit sharing plans, but not for money purchase plans.