



The third of a series of four articles of the *Wealth Council Insights Education Series* focuses on the various means to save for retirement through qualified retirement plans. A well-rounded retirement plan will contemplate each of the topics of this four-part series:

- I. Social Security (See “Social Security – Timing is Everything”)
- II. How Much Might I Need? (See “The Myth Regarding Lower Living Expenses at Retirement”)
- III. Retirement Plan Options (The focus of this article, “Available Vehicles for Retirement Savings”)
- IV. Timing (See “The Ins and Outs of Retirement Savings”)

This article will introduce a variety of common retirement plan options including employer-provided plans and plans funded entirely by the individual. The options are further broken down by plans designed for the self-employed, those working for small, medium and large companies and those working for non-profit organizations and the government.

Retirement plans are either defined benefit plans or defined contribution plans. People may acquire a combination of several of these types of plans throughout their careers.

EMPLOYER-PROVIDED QUALIFIED RETIREMENT PLANS

One of the most attractive benefits offered by employers is the ability to participate in a company retirement plan.

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In today’s post-pandemic job market, employers are seeing the need to “sweeten the pot” in order to obtain and retain employees. Currently about 50% of employers offer retirement benefits to their employees, with additional likely to begin sponsoring a plan in the next year. ⁽¹⁾

The Defined Benefit Plan (often referred to as the traditional pension plan), requires funding by the employer and the guarantee that the employee will receive a set amount of annual benefits upon retirement throughout their lifetime, and possibly the lifetime of their surviving spouse depending upon what election is made (regardless of the performance of the underlying investment pool). Defined Benefit Plans date back to 1875 in the United States and were very common until the mid-1980s. Currently, only 19% of employers with 100-499 employees provide a traditional pension plan, dropping to 7% among companies with fewer than 100 employees. ⁽²⁾



Defined Contribution Plans have become the more widely-used type of plan over the years, with the most common being the 401(k) plan. A 401(k) is designed for the employee to elect to defer receiving a portion of their salary, thus reducing their taxable income. The contributions may be matched, up to a stated limit by the employer, providing a huge benefit to employees. Earnings and contributions are taxed upon withdrawal. 403(b) plans are similar to the 401(k) plan, but are for non-profit and government employees.

Other companies may offer Profit-Sharing Plans, which allow for employers to have the flexibility to adjust yearly contributions based on the profitability of the business, or Money Purchase Pension Plans where employer contribution amounts are fixed, regardless of the company's profitability for the year. A company may also offer an Employee Stock Ownership Plan (ESOP), similar to a profit-sharing plan, but designed to hold employer stock.

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These plans can provide great opportunities for employees to benefit from reduced taxable income, savings for their future retirement and,

in many cases, added contributions from their employers.

However, for the many who work for companies that do not provide retirement plans or who work for themselves, the weight of saving for the future rests upon their own shoulders.

INDIVIDUAL QUALIFIED RETIREMENT PLANS

In addition to Employer-Provided Qualified Retirement Plans, there are several Individual Qualified Retirement Plans available to sock tax-deferred dollars away for the future, including Traditional IRAs and Roth IRAs, as well as Solo 401(k)s, Simplified Employee Pension (SEPs) Plans and Savings Incentive Match Plan for Employees (SIMPLE) IRAs for the self-employed.

Traditional IRAs are tax deductible, but the deductibility of those contributions is subject to Modified Adjusted Gross Income (MAGI) limits, which are adjusted annually by the IRS. Similar to 401(k)s, earnings and contributions are taxed upon withdrawal.

Another type of commonly utilized individual retirement account is the Roth IRA. Maximum contributions and additional catch-up amounts are the same as Traditional IRAs, however, this type of IRA places limits on MAGI for allowable contributions. Contributions are NOT deductible. However, the potential benefit of a Roth IRA is that future distributions are tax-free (after at least five years of contributions).



Some people choose to convert their Traditional IRAs to Roth IRAs. Those electing a Roth conversion may pay taxes on the converted amount at the time of conversion and then allow those funds to accumulate for future tax-free distributions. This strategy is usually only used when the person has adequate cash in non-qualified assets to pay those taxes. Dipping into the retirement account itself for payment results in a large tax payment off the top during the conversion, negating much of the benefit of converting. A 10% penalty may be assessed on funds used to pay income taxes if done prior to 59½ years of age.

The Secure Act 2.0 decreased the penalty for missing or taking an incorrect amount for an RMD to 25% from 50% starting in 2023, with the possibility of reducing it further to 10% if you take your missed RMD during the “correction window” (typically the end of the second tax year following the year of the missed RMD).

QUALIFIED RETIREMENT PLANS FOR SELF-EMPLOYED INDIVIDUALS

A SEP-IRA Plan provides business owners with a streamlined method to contribute toward their employees’ retirement as well as their own retirement savings. Contributions are made to a SEP-IRA for each plan participant and follows the same investment, distribution and rollover rules as Traditional IRAs.

A SIMPLE IRA allows employers and employees of a small business to set aside money in retirement accounts at the lower start-up and operating costs of a conventional retirement plan.

A business owner with no employees can establish a Solo 401(k) that has the same rules and requirements as any other 401(k) plan.

**2024 LIMITS FOR QUALIFIED RETIREMENT PLANS ⁽³⁾**

Elective deferrals 401(k), 403(b)	\$23,000
Catch-up contribution	\$7,500
Defined Contribution Plan	\$69,000
Defined Benefit Plan	\$275,000
SIMPLE Plan	\$16,000
Catch-up contribution	\$3,500
IRA or Roth IRA contribution limit	\$7,000
Catch-up contribution	\$1,000
IRA deduction phase-out for active participants	
Single	\$77,000 - \$87,000
Married filing jointly	\$123,000 - \$143,000
Married filing separately	\$0 - \$10,000
Non-active participant married to active participant	\$230,000 - \$240,000
Roth IRA phase-out of contribution if modified AGI is between:	MFJ: \$230,000 - \$240,000 S/HH: \$146,000 - \$161,000 MFS: less than \$10,000



CONCLUSION

This discussion and introduction to the various commonly utilized retirement plans is intended to help you formulate, or expand upon, a well-rounded savings plan for your retirement. Retirement planning can be complex as there are many rules regarding contributions, distributions and taxation, depending upon the type of retirement plan(s) you choose. Your Oxford Team of advisors is positioned to help you take a deeper dive into all the various types of plans available, provide you with in-depth modeling of various retirement scenarios and work in coordination with your CPA to determine the best type of plan(s) and timing of withdrawals for your particular situation.

In our next and final article on the topic of retirement we will focus on timing of contributions and withdrawals.

⁽¹⁾ <https://www.bls.gov/mlr/1991/12/art3full.pdf>

⁽²⁾ <https://money.usnews.com/money/retirement/articles/a-guide-to-getting-a-pension>

⁽³⁾ <https://www.fidelity.com/learning-center/smart-money/ira-contribution-limits>

WEALTH COUNCIL INSIGHTS EDUCATION SERIES

ABOUT THE SERIES

In the Wealth Council Insights Education Series, we endeavor to deconstruct some of the complexities that exist around many commonly utilized estate and financial planning concepts in order to provide you and your family with the basic knowledge needed to better understand and create a blueprint for your overall wealth enhancement needs.

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