



A 401(k) is Better Than a SEP or SIMPLE IRA

Thriving Businesses Rely on 401(k)

The 401(k) plan is one of the most powerful tools a business owner can use to lower their personal taxable income and maximize their savings for retirement.

When your business is growing, your team is expanding, and your income is increasing to match, you may find that the SEP or SIMPLE IRA you once relied on to put aside some money for the future just isn't able to keep up.

Here are the top five reasons why a 401(k) plan with Fisher Investments can do more for you—and your business—than a SEP or SIMPLE IRA.



Save More for Retirement

A 401(k) plan allows employees and the business owner(s) to save more. 401(k)s that also include a profit sharing option allow for combined employee and employer contributions up to \$57,000 a year or \$63,500 if age 50 or older. But, a SIMPLE IRA only allows you to save up to \$13,500 in 2020 or \$16,500 if age 50 or older.

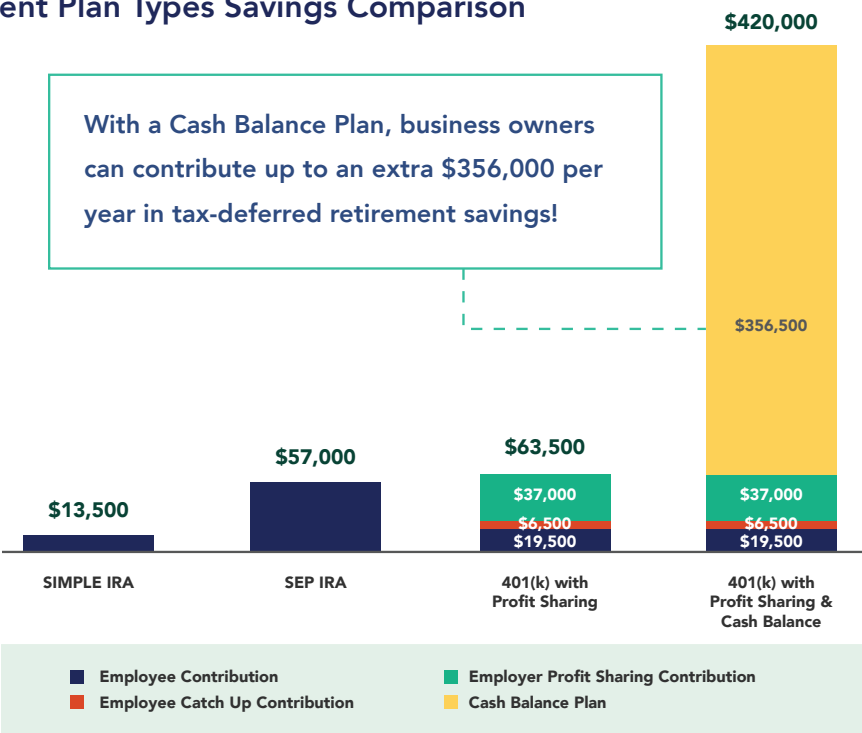
A SEP IRA limits annual contributions to \$57,000 or 25% of your income, whichever is lesser. In fact, you have to make \$228,000 per year in order to get the \$57,000 annual savings.



**There is no income percentage cap with a 401(k) plan,
allowing you to save more.**

A 401(k) can have more plan types added to help you save more when your business is ready. Here’s an example comparing your potential savings with a SIMPLE IRA, SEP IRA, 401(k) with profit sharing and a 401(k) with profit sharing and Cash Balance Plan.

Retirement Plan Types Savings Comparison



A business owner can save significantly more when they add a **Cash Balance Plan** to their 401(k). Pair this plan option with your 401(k) to save an extra \$356,000 per year above and beyond what a traditional 401(k) allows. In some circumstances, that means you can unlock up to \$420,000 per year in tax-deferred retirement savings!¹

2

Pay Fewer Taxes

A 401(k) plan is leagues ahead of either a SEP or SIMPLE IRA when it comes to how much money you can save in taxes. With all of the add-ons and optional plan features available, a retirement plan offers one of the biggest tax benefits available for business owners.

A retirement plan offers one of the biggest tax benefits available for business owners.

The tax reduction comes in the form of a pension deduction (the employer contribution and cash balance part of the contribution). It is the only tax-deductible expense business owners can keep. To put this into further relief, this is the only

¹ Assumes owner is age 70 or older.

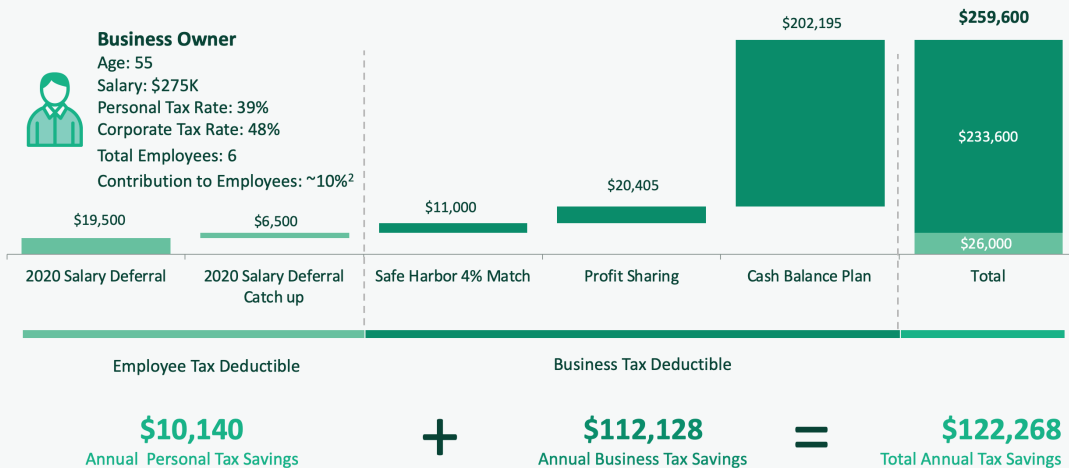
expense business owners can take out of their business's pocket and put in their own personal pocket—and not pay taxes on it until withdrawn in retirement.

A 401(k) provides business owners three ways to save on taxes:

- **Personal Tax Deduction:** Owners can make a tax-deductible contribution to their plan as an employee. Up to 26K a year with catch-up. This deduction comes out of personal taxes.
- **Business Tax Deduction:** Then, owners can make a tax-deductible contribution to their plan as the employer. Up to 37K with a 401(k) profit sharing plan and up to \$393,500 with a 401(k) profit sharing + cash balance plan.
- **Start-up Tax Credit:** There are tax credits for setting up your first 401(k). The credit is 50% of the costs to start a 401(k), from a minimum of \$500 per year up to \$5,000 per year for the first three years. This is also available for SEP and SIMPLE IRAs.

Case study

In the Fast-Track case study below, a business owner saved \$259K in one year for retirement while also saving \$122K on taxes. In essence, **tax savings funded almost half of the retirement contribution!**



3

Flexible Savings Options

A 401(k) plans allow you and your employees to save with a Roth option as well as the pre-tax option. With both the SEP and SIMPLE IRA, you're limited to pre-tax contributions. For those early in their careers who would rather pay taxes on their retirement savings now when they're in a lower tax bracket, Roth contributions can be made on an after-tax basis in addition to the standard pre-tax contributions.



²~10% of eligible employee compensation given as Safe Harbor & Profit Sharing contributions.

The Roth option is also great for highly compensated employees looking to diversify the tax strategy surrounding their retirement savings, giving them the option to pay some taxes on their savings now to spread out their overall tax burden. This is especially beneficial if they make more than \$135,000 per year, because they can't contribute to a Roth IRA due to income restrictions. This makes a Roth 401(k) option a big plus.

A Roth option on your 401(k) plan helps highly compensated employees diversify their tax strategy.

4

Get a Safety Net

When life happens, sometimes it can make sense to borrow against your retirement savings. If you choose, a 401(k) plan can offer a safety net to employees and owners alike in the form of 401(k) loans. These loans can be used to finance a new business venture, or even provide short-term relief when the unexpected occurs—like the COVID-19 pandemic. SEP and SIMPLE IRAs never allow loans. Keep in mind though, 401(k) loans are frequently misused. When loans are taken, they can pose a threat to someone's retirement preparedness. They also require extra administrative effort.



5

Empower Employees to Save More

In order to save enough for retirement, employers and employees alike will start saving as soon as possible and increase their savings rates over time. SEP IRAs don't allow employees to save any of their own money, and SIMPLEs only allow employees to save up to that smaller \$13,500 limit.



Not only does a 401(k) have much higher contribution limits, but with a 401(k) plan you can select options that will encourage employee saving in ways that SEP and SIMPLE IRAs can't.

Auto-enrollment sets up eligible employees at a pre-determined saving rate with a default investment option that employees have to proactively opt out of, which means more employees who don't save will find it easier than ever to get started. Auto-escalation is another optional feature that will increase employees' saving rates over time, helping them stay on track for retirement.

Fisher 401(k) Plans encourage employees to save.

55% Participation Increase

Average increase in employee participation rates as of 1/1/19

100% Contribution Increase

Average increase in employee participation rates as of 1/1/19

Retirement Plan Comparison Chart

Feature	401(k)	Solo 401(k)	SIMPLE IRA	SEP IRA
Usually a Good Fit For	Entities of all sizes	Entities with no employees	Small businesses with only a few employees	Small businesses with only a few employees
Who Can Contribute	Employer & employees	The owner, as an employer & employee	Employer & employees	Employer only
Employer Contributions	Optional	Optional	Required: Match of 100% up to 3% or 2% non-elective	Must be proportional to owner and employees (i.e. same percentage of pay)
Annual Contribution Maximum	\$57,000 (plus \$6,500 catch up for age 50+)	\$57,000 (plus \$6,500 catch up for age 50+)	\$13,500	\$57,000
Complements Strategic Tax-Savings Plans (e.g. Cash Balance)	Yes	Yes	No	No
Loans Permitted	Yes	Yes	No	No
Roth Permitted	Yes	Yes	No	No
Vesting	Up to 6 years	Up to 6 years	Immediate	Immediate
Can Employees Be Excluded	Yes	N/A	No	No



Learn how Fisher 401(k) Solutions can help you and your employees maximize retirement savings.

[Schedule a free consultation](#)

FISHER INVESTMENTS®
401(k) SOLUTIONS

844-238-1249
www.fisher401k.com

©2020 Fisher Investments.

Investing in securities involves the risk of loss. Intended for use by employers considering or sponsoring retirement plans; not for use by plan participants.

K08203M