

2021 PLAN COMPARISON

Whether you're an employer who wants to help your employees work toward a secure retirement, or someone who wants to plan for your own future, this handy guide can help you narrow the focus and zero in on a retirement plan that could work for you in 2021. Because of the complexities involved with qualified retirement plans, always consult your legal or tax advisor to be sure you are complying with the rules.

| 2021 | Traditional IRA | Roth IRA | SEP | Simple IRA |
|--|---|---|---|--|
| Plan Features | Contributions may be tax deductible (if individual falls within income guidelines); can be used in conjunction with any retirement plan. Contributions can be made after age 72. | Tax-free growth and distributions (provided certain conditions are met); nondeductible contributions may be made even after age 72; can be used in conjunction with any retirement plan | Employer-funded; easy to establish and maintain; minimal IRS filings and paperwork; low cost | Employee- and employer-funded; easy to establish and maintain; no ADP/ ACP nondiscrimination testing; mandatory employer contributions; employer cannot maintain another retirement plan |
| Who May Establish | Age limit: None Income limit: None. Must have taxable compensation. | Age limit: None Income limit: \$140,000 for single and \$208,000 for joint | Sole proprietors, partnerships, corporations, nonprofits, government entities | Employers with 100 or fewer employees, including sole proprietors, partnerships, corporations, nonprofits, and government entities |
| Establishment Deadline | Tax filing deadline (generally April 15) | Tax filing deadline (generally April 15) | Tax filing deadline plus extensions | October 1 |
| Contribution Deadline | Tax filing deadline (generally April 15) | Tax filing deadline (generally April 15) | Tax filing deadline plus extensions | Salary deferrals made on each pay period; employer contributions by tax filing deadline plus extensions |
| Contribution Limit/ Requirements | Annual contributions of up to \$6,000 or 100% of compensation (whichever is less); \$7,000 if age 50 or older; non-employed spouses may also contribute up to \$6,000 per year if conditions are met (\$7,000 if over 50) | Annual contributions of up to \$6,000 or 100% of compensation (whichever is less); \$7,000 if age 50 or older; non-employed spouses may also contribute up to \$6,000 per year if conditions are met (\$7,000 if over 50) | 25% of compensation up to \$58,000; approximately 20% for sole proprietors (due to self-employment deduction) | Employees can defer up to \$13,500; \$16,500 if age 50 or older; employer must match dollar for dollar up to 3% of compensation (can be lowered to 1% for two of every five years) OR 2% of compensation as a non-elective contribution |
| Who Contributes | Individual | Individual | Employer | Employee and Employer |
| Maximum Employee Eligibility Requirements | N/A | N/A | Age 21 or older, worked three of last five years and earned at least \$650 in each of those years; may exclude union employees and nonresident aliens | Earned at least \$5,000 during any two prior years and is expected to earn at least \$5,000 in current year; may exclude union employees and nonresident aliens; no age limit restriction |
| Vesting | 100% | 100% | 100% | 100% for both employee and employer contributions |
| Distributions | Distributions taken prior to age 59½ may be subject to a 10% penalty tax, in addition to ordinary income tax; minimum distributions required at 72. Exceptions to 10% penalty may apply. ¹ The distribution, which is still subject to tax, may be repaid to the retirement account. | Tax-free distributions allowed provided certain conditions are met; no minimum distributions required at age 72 | Distributions taken prior to age 59½ may be subject to a 10% penalty tax, in addition to ordinary income tax; minimum distributions required at 72. Exceptions to 10% penalty may apply. ¹ The distribution, which is still subject to tax, may be repaid to the retirement account. | Distributions taken prior to age 59½ may be subject to 10% penalty tax, in addition to ordinary income tax (25% penalty applies if distribution is within two years of participation); minimum distributions required at 72. Exceptions to 10% penalty may apply. ¹ The distribution, which is still subject to tax, may be repaid to the retirement account. |
| Loan Features | Not available | Not available | Not available | Not available |
| Plan Administration | None | None | None | None |

¹ For example, new parents may withdraw up to \$5,000 from a retirement account within a year of a child's birth or adoption without a 10% penalty tax.

(Continued)

| 2021 | Profit Sharing/ Money Purchase | 403(b)(7) ² / Roth 403(b)(7) | 401(k)/Roth 401(k) | Safe Harbor 401(k)/ Roth Safe Harbor 401(k) | Individual K/ Roth Individual K |
|--|---|---|---|---|---|
| Plan Features | Employer-funded; allows restricted coverage; allows control over when the money will be withdrawn; may allow for loans | Primarily employee-funded; easy to establish and maintain; pre-tax contributions may reduce employee's current taxable income | Employee-funded with possible employer contribution; allows restricted coverage; allows control over when the money will be withdrawn; may allow for loans | Employee- and employer-funded; allows employers to maximize contributions made by highly compensated employees; mandatory employer contributions; no ADP/ACP discrimination testing | Employee- and employer-funded; allows control over when the money will be withdrawn; may allow for loans; designed specifically for owner-only businesses |
| Who May Establish | Sole proprietors, partnerships, corporations, nonprofits, government entities | Public schools and 501(c)(3) organizations | Sole proprietors, partnerships, corporations, nonprofits | Sole proprietors, partnerships, corporations, nonprofits | Employer-only businesses including sole proprietors, partnerships, corporations, and nonprofits (may employ spouse) |
| Establishment Deadline | Tax filing deadline plus extensions | Plan year-end, usually December 31 for calendar-year plans | Tax filing deadline plus extensions. Plans with employee deferrals must be established by December 31. | October 1 | Tax filing deadline plus extensions. Plans with employee deferrals must be established by December 31. |
| Contribution Deadline | Tax filing deadline plus extensions | Salary deferrals withheld each pay period; employer contributions by tax filing deadline plus extensions | Salary deferrals withheld each pay period; for sole proprietors, when business income is determined; employer contributions by tax filing deadline plus extensions | Salary deferrals withheld each pay period; for sole proprietors, when business income is determined; employer contributions by tax filing deadline plus extensions | Salary deferrals withheld each pay period; for sole proprietors, when business income is determined; employer contributions by tax filing deadline plus extensions |
| Contribution Limit/Requirements | 25% of compensation up to \$58,000; approximately 20% for sole proprietors (due to self-employment deduction); PSP contributions are discretionary and MPP contributions are required by percentage specified in plan document | Employees can defer up to \$19,500; catch-up contributions of \$6,500 if age 50 or older; employer contribution of 25% of compensation; total combined employer and employee contributions cannot exceed \$58,000 (excludes catch-up contribution); long-tenured catch-up contribution for employees of 15 years or more with same employer | Employees can defer up to \$19,500; catch-up contributions of \$6,500 if age 50 or older; employer contribution of 25% of compensation (approximately 20% for sole proprietors due to self-employment deduction); total combined employer and employee contributions cannot exceed \$58,000 (excludes catch-up contribution) | Employees can defer up to \$19,500; catch-up contributions of \$6,500 if age 50 or older; employer typically contributes dollar for dollar on the first 3% and \$.50 on the dollar for the next 2%; other employer contribution options are available; additional non-safe harbor employer contributions are allowed | Employees can defer up to \$19,500; catch-up contributions of \$6,500 if age 50 or older; employer contribution of 25% of compensation (approximately 20% for sole proprietors due to self-employment deduction); total combined employer and employee contributions cannot exceed \$58,000 (excludes catch-up contribution) |
| Who Contributes | Employer | Employee and Employer | Employee and Employer | Employee and Employer | Individual |
| Maximum Employee Eligibility Requirements | Age 21 or older, worked one year (or two years if 100% immediate vesting); may exclude union employees, nonresident aliens and employees who work less than 1,000 hours per year ³ | Generally, all employees | Age 21 or older, worked one year; may exclude union employees, nonresident aliens and employees who work less than 1,000 hours per year ³ | Age 21 or older, worked one year; may exclude union employees and nonresident aliens; may not exclude employees due to minimum hours or last-day rules | N/A |
| Vesting | Vesting schedule allowed | 100% | 100% for employee contributions; vesting schedule allowed for employer contributions | 100% for both employee and employer contributions; vesting schedule allowed for any employer contributions made in addition to mandatory safe harbor contributions | Vesting schedule allowed but generally not used |
| Distributions | Distributions can only be taken with a triggering event such as death, permanent disability, attainment of plan's normal retirement age, separation from service or plan termination; any distributions taken prior to age 59½ (age 55 if separated from service) may be subject to 10% penalty tax, in addition to ordinary income tax; minimum distributions may be required at 72. Exceptions to 10% penalty may apply. ⁴ The distribution, which is still subject to tax, may be repaid to the retirement account. | Distributions can only be taken with a triggering event such as death, permanent disability, attainment of 59½, separation from service or plan termination, or hardship; any distributions taken prior to age 59½ (age 55 if separated from service) may be subject to a 10% penalty tax, in addition to ordinary income tax; minimum distributions may be required at 72. Exceptions to 10% penalty may apply. ⁴ The distribution, which is still subject to tax, may be repaid to the retirement account. | Distributions can only be taken with a triggering event such as death, permanent disability, attainment of plan's normal retirement age, separation from service or plan termination; any distributions taken prior to age 59½ (age 55 if separated from service) may be subject to 10% penalty tax, in addition to ordinary income tax; minimum distributions may be required at 72. Exceptions to 10% penalty may apply. ⁴ The distribution, which is still subject to tax, may be repaid to the retirement account. | Distributions can only be taken with a triggering event such as death, permanent disability, attainment of plan's normal retirement age, separation from service or plan termination; any distributions taken prior to age 59½ (age 55 if separated from service) may be subject to 10% penalty tax, in addition to ordinary income tax; minimum distributions may be required at 72. Exceptions to 10% penalty may apply. ⁴ The distribution, which is still subject to tax, may be repaid to the retirement account. | Distributions can only be taken with a triggering event such as death, permanent disability, attainment of plan's normal retirement age, separation from service or plan termination; any distributions taken prior to age 59½ (age 55 if separated from service) may be subject to 10% penalty tax, in addition to ordinary income tax; minimum distributions may be required at 72. Exceptions to 10% penalty may apply. ⁴ The distribution, which is still subject to tax, may be repaid to the retirement account. |
| Loan Features | Allowed | Allowed | Allowed | Allowed | Allowed |
| Plan Administration | IRS Form 5500 and other ERISA requirements ⁵ | IRS Form 5500 and other ERISA requirements if subject to ERISA ⁵ | IRS Form 5500 and other ERISA requirements ⁵ | IRS Form 5500 and other ERISA requirements ⁵ | IRS 5500 EZ when plan assets reach \$250,000 |

² Employer may make matching or discretionary contributions within an ERISA 403(b); ERISA 403(b)s are subjected to ERISA requirements.

³ Long-term part time employees (those who work 500 or more hours in at least three consecutive years beginning 01-01-2021) may contribute to the plan

⁴ For example, new parents may withdraw up to \$5,000 from a retirement account within a year of a child's birth or adoption without a 10% penalty tax.

⁵ Owner-only plans are not required to file IRS 5500 until assets reach \$250,000 or terminate. LPL Financial does not provide tax advice. Please consult your tax advisor.

Retirement Plan Portability

| | | Receiving Plan | | | | | | | | | | |
|-----------------|------------------------------|--|----------------------|--|--|----------------------|-----------------------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------------|
| To / From | | IRA (Traditional Spousal) | Roth IRA | SEP IRA | SIMPLE IRA | Coverdell ESA | Qualified Plans ⁶ | Roth 401(k) | 403(b) | Roth 403(b) | SIMPLE 401(k) | Government 457(b) |
| Delivering Plan | IRA (Traditional Spousal) | Transfer or Rollover | Conversion | Transfer or Rollover | Transfer ⁷ or Rollover ⁷ | NO | Rollover | NO | Rollover | NO | Rollover | Rollover |
| | Roth IRA | Recharacterization ⁹ | Transfer or Rollover | Recharacterization ⁹ | NO | NO | NO | NO | NO | NO | NO | NO |
| | SEP IRA | Transfer or Rollover | Conversion | Transfer or Rollover | Transfer ⁷ or Rollover ⁷ | NO | Rollover | NO | Rollover | NO | Rollover | Rollover |
| | SIMPLE IRA | Transfer ⁷ or Rollover ⁷ | Conversion | Transfer ⁷ or Rollover ⁷ | Transfer or Rollover | NO | Rollover ⁷ | NO | Rollover ⁷ | NO | Rollover ⁷ | Rollover ⁷ |
| | Coverdell ESA | NO | NO | NO | NO | Transfer or Rollover | NO | NO | NO | NO | NO | NO |
| | Qualified Plans ⁶ | Rollover | Conversion | Rollover | Rollover ⁷ | NO | Transfer ⁸ or Rollover | Rollover | Rollover | NO | Rollover | Rollover |
| | Roth 401(k) | NO | Rollover | NO | NO | NO | NO | Transfer ⁸ or Rollover | NO | Rollover | NO | NO |
| | 403(b) | Rollover | Conversion | Rollover | Rollover ⁷ | NO | Rollover | NO | Transfer or Rollover | Rollover | Rollover | Rollover |
| | Roth 403(b) | NO | Rollover | NO | NO | NO | NO | Rollover | NO | Transfer ⁸ or Rollover | NO | NO |
| | SIMPLE 401(k) | Rollover | Conversion | Rollover | Rollover ⁷ | NO | Rollover | NO | Rollover | NO | Rollover | Rollover |
| | Government 457(b) | Rollover | Conversion | Rollover | Rollover ⁷ | NO | Rollover | NO | Rollover | NO | NO | Transfer or Rollover |

⁶ Qualified plans include profit sharing, money purchase, defined benefit, ESOP, target benefit.

⁷ Available only after the individual has been a SIMPLE plan participant for over two years.

⁸ Only a plan merger could be done as a transfer. All other movement would need to be done as a rollover.

⁹ No recharacterizations of conversions made in 2018 or after.

Portability Definitions

Transfer

– Movement of assets from one account to another in which both accounts are considered to be like plans. This type of transaction does not generate any tax reporting to the IRS and is therefore nontaxable. If the assets are changing custodians, the receiving custodian will need to sign a letter of acceptance accepting custodial responsibility of the account.

Rollover

– Movement of assets from one account to another. This type of transaction generates a 1099-R on the delivering side and a 5498 on the receiving side for IRAs. The event may be nontaxable if it is done properly and within 60 days.

Conversion

– Movement of assets from an eligible qualified plan or IRA to a Roth IRA. This type of transaction generates a 1099-R on the delivering side and a 5498 on the receiving side. This is generally a taxable event.

Recharacterization

– Movement of assets from one account into another account to undo a previous transaction. This transaction is most common from a Roth IRA to an eligible IRA to undo a Roth conversion. Transaction will generate a 1099-R on the delivering side and a 5498 on the receiving side. A conversion from a Traditional IRA to a Roth IRA made after December 31, 2017 cannot be recharacterized.

Annual Contribution Limits

| Annual Contribution Limits | 2021 | 2020 |
|---|-----------------------|-----------------------|
| Traditional IRA, Roth IRA, Spousal, Guardian | \$6,000 | \$6,000 |
| Traditional, Roth, Spousal IRA Catch-Up Contribution | \$1,000 | \$1,000 |
| Coverdell ESA (per beneficiary) | \$2,000 | \$2,000 |
| Employer Deduction Limit (SEP, MPP, PSP, 401(k) ²) | 25% aggregate comp | 25% aggregate comp |
| Elective Deferral (402(g) Limit): 401(k), SARSEP, 457 and 403(b)) | \$19,500 | \$19,500 |
| Defined Contribution 415 Limit (the lesser of) | 100% comp or \$58,000 | 100% comp or \$57,000 |
| Salary Deferral Catch-Up Limit (does not count against 415 limits in a 401(k) plan) | \$6,500 | \$6,500 |
| SIMPLE Plan Deferral | \$13,500 | \$13,500 |
| SIMPLE IRA Catch-Up Limit | \$3,000 | \$3,000 |
| Defined Benefit 415 Limit | \$230,000 | \$230,000 |
| Annual Compensation Cap | \$290,000 | \$285,000 |
| SEP Participation Compensation | \$650 | \$600 |
| Highly Compensated Employee (HCE) | \$130,000 | \$130,000 |
| Key Employee Officer Definition | \$185,000 | \$185,000 |
| Social Security Taxable Wage Base | \$142,800 | \$137,700 |

Contribution Eligibility for Roth IRAs 2021

| Modified Adjusted Gross Income Phase Out Range | | |
|--|---------------------|--------------|
| \$125,000–\$140,000 | \$198,000–\$208,000 | \$0–\$10,000 |

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| | | | |
|--|---|--|-----------------------|
| Not Insured by FDIC/NCUA or Any Other Government Agency | Not Bank/Credit Union Guaranteed | Not Bank/Credit Union Deposits or Obligations | May Lose Value |
|--|---|--|-----------------------|

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Tax Deductibility of IRA Contributions

Tax Deductibility of IRA Contributions (Tax Year 2021) for Participants in Employer-Sponsored Retirement Plans

- IRA contributions are fully deductible if neither you nor your spouse participates in an employer-sponsored retirement plan such as 401(k), 403(b), or pension plan.
- **Deductibility is limited** if you or your spouse participates in an employer-sponsored retirement plan. Refer to the chart below to determine if your modified adjusted gross income affects the amount of your deduction.

| Filing Status | Modified Adjusted Gross Income | Allowable Deduction |
|---------------|---|--|
| | \$66,000 or less | A full deduction up to the amount of your contribution limit |
| | More than \$66,000 but less than \$76,000 | A partial deduction |
| | \$76,000 or more | No deduction |
| | \$105,000 or less | A full deduction up to the amount of your contribution limit |
| | More than \$105,000 but less than \$125,000 | A partial deduction |
| | \$125,000 or more | No deduction |
| | Less than \$10,000 | A partial deduction |
| | \$10,000 or more | No deduction |

If you file separately and did not live with your spouse at any time during the year, your IRA deduction is determined under the "Single" filing status.

This chart is designed to give you a basic overview of IRA deductions. LPL Financial recommends you consult with a qualified tax advisor before making IRA decisions.