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Chapter 13
Retirement Plans

Qualified

1. Qualified plans have tax-deferred contributions from the employer &/or the employee, and employers may deduct amounts they contribute to the plan.

Non-Qualified

2. Nonqualified plans use after-tax dollars to fund them, and in most cases one cannot claim their contributions as a tax deduction.

Tax Deductible

3. The money is subtracted from income, lowering the taxable amount of income taxed (less to the government)

Vesting

4. The right that one has to the ownership of the money. Always 100% vested in own contributions. Vesting schedules for employer contributions.

Types of Employer Retirement Plans

1. **Defined Benefit Plans**
    - Define the benefit that will be paid at a future date
    - Contributions made each year will differ depending on the interest rate
    - Pension plans
2. **Defined Contribution Plans**
    - Define the contribution to be made each year
    - Future benefit unknown
        i. Profit Sharing Plans
        ii. Money Purchase Plans
        iii. Stock Bonus Plans
3. **401 (K) Plans**
    - Employees elect money to be deducted from salary
    - Lowers employee's taxable income (tax deductible)
    - Typical to have employer matching contributions (not taxed to employee)
    - Limits on amounts contributed
    - Penalties and taxes for withdrawals before 59 ½ (10% penalty)
    - Exceptions to early withdrawal penalties (death, disability, 1st time home buyer)
    - Vesting schedule for employer contributions

4. **Tax Sheltered Annuities - 403 B Plans**
    - Reserved for
        - **Teachers**
        - **Preachers**
        - **Non-profit organizations (501 C 3)**
    - Same rules for 401k plans

5. **Deferred Compensation Plans 457 Plans**
    - For employees of state & local governments
    - Same rules for 401k plans

Qualified Plans for <u>Small</u> Employers

1. **KEOGH Plans**
    a. For un-incorporated businesses
    b. May be either defined benefit or defined contribution type plans
    c. Limits on contributions (same as corporate)
    d. Same non-discrimination rules (highly paid vs lowly paid)
2. **Simplified Employee Pensions (SEPS)**
    a. Self-employed are eligible too
    b. They are IRAs to which the <u>employer</u> contributes
    c. Not included in employees income
    d. Larger amounts may be contributed than a regular personal IRA (approx. 25% of income)
    e. Max contribution limits
3. **Salary Reduction SEPS**
    a. Reserved for companies with 25 or fewer employees
    b. Employees contribute through salary reduction
    c. Same limits as 401K
4. **SIMPLE PLANS**
    a. Easier to set up as to IRS rules
    b. Not more than 100 employees
    c. Employee funds & employer matches up to 3%
    d. Employee immediately vested

Individual Plans

<u>Traditional</u> Individual Retirement Accounts (IRAs)

- Earned income counted (not income from stocks, bonds)
- May contribute 100% of earned income up to a max (2023 - $6500)
- Non-wage-earning spouse may do the same as above
- No age limit on contributions
- Age 50 & older allowed catch-up amounts
- May be able to deduct contributions if:
  - They have no employer-sponsored retirement plan
  - And, if they do, the amount of income they make
- Mandatory withdrawals beginning at age 72
- Penalties & Taxes if withdrawals occur before age 59 ½
  - Exceptions:
    - Dies or becomes disabled
    - Qualifying medical expenses
    - Higher education
    - 1st time home buyer
    - Annuitized payments
    - Health premiums while un-employed
    - Retired Firefighter, EMT, Policeman with a pension can withdrawal at age 50

ROTH IRAs

- Similar to above but:
- Contributions not deductible
- Qualified withdrawals completely tax free (including interest)
- No mandatory requirements at age 72
- Income restriction limits (if earning above a certain amount, cannot contribute)
- Qualified withdrawals (no taxes or penalties):
  - Must be in the account for at least five years
  - Have reached age 59 ½
  - Death or disabled
  - 1st time home buyer
- Non-qualified withdrawals:
  - Distributed earnings subject to tax
  - 10% Penalty

Rollover IRAs

- Money received from an IRA must be deposited within 60 days of receipt
- If not penalties & taxes incurred