

2024

# Retirement Planning Guide

IRA | Roth | SEP | SIMPLE | DB | 401(a) | 401(k) | 403(b) | Life Insurance



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# Traditional IRA

## IRA – Individual Retirement Account (or Individual Retirement Annuity)

*A tax favored plan that encourages saving for retirement*

### Contribution Limits

- › Individual’s annual contribution is the lesser of \$7,000 or 100% of compensation; the limit includes contributions for both a traditional IRA and Roth IRA combined.
- › Married couple’s annual contribution limit is the lesser of \$14,000 or 100% of compensation; each spouse must maintain his or her own separate IRA, and the \$7,000 limit applies to each spouse separately.
- › Catch-up Provision: Individuals age 50 (by the end of the calendar year) or older are permitted to make catch-up contributions of an additional \$1,000 each year, making their annual contribution limit the lesser of \$8,000 or 100% of compensation.\*

### Eligibility and Deductibility

- › Any legal resident of the U.S. who has compensation can contribute to a traditional IRA.
- › If neither the individual nor the individual’s spouse is an active participant in an employer sponsored retirement plan, their traditional IRA contributions are deductible.
- › If one spouse isn’t an active participant in an employer sponsored retirement plan but the other spouse is, both spouses’ contributions may be deductible depending on the couple’s modified adjusted gross income (MAGI).

**Spouse not actively participating:** Deductible IRA contribution limit for 2024 is the lesser of the amount shown below or 100% of compensation.

| MAGI                | Under Age 50 | Age 50 and Over | MAGI               | Under Age 50 | Age 50 and Over |
|---------------------|--------------|-----------------|--------------------|--------------|-----------------|
| \$230,000 and under | \$7,000      | \$8,000         | \$236,000          | \$2,800      | \$3,200         |
| \$231,000           | \$6,300      | \$7,200         | \$237,000          | \$2,100      | \$2,400         |
| \$232,000           | \$5,600      | \$6,400         | \$238,000          | \$1,400      | \$1,600         |
| \$233,000           | \$4,900      | \$5,600         | \$239,000          | \$700        | \$800           |
| \$234,000           | \$4,200      | \$4,800         | \$240,000 and over | \$0          | \$0             |
| \$235,000           | \$3,500      | \$4,000         |                    |              |                 |

\*Effective Jan. 1, 2026, plan participants earning over \$145,000 in prior-year FICA wages must designate any catch-up contributions as Roth contributions. Until then, catch-up contributions may continue to be made under the pre-SECURE 2.0 Act rules.

# Traditional IRA *(continued)*

**Active participant spouse:** Deductible IRA contribution limit for 2024 is the lesser of the amount shown below or 100% of compensation.

| MAGI                | Under Age 50 | Age 50 and Over |
|---------------------|--------------|-----------------|
| \$123,000 and under | \$7,000      | \$8,000         |
| \$124,000           | \$6,650      | \$7,600         |
| \$125,000           | \$6,300      | \$7,200         |
| \$126,000           | \$5,950      | \$6,800         |
| \$127,000           | \$5,600      | \$6,400         |
| \$128,000           | \$5,250      | \$6,000         |
| \$129,000           | \$4,900      | \$5,600         |
| \$130,000           | \$4,550      | \$5,200         |
| \$131,000           | \$4,200      | \$4,800         |
| \$132,000           | \$3,850      | \$4,400         |
| \$133,000           | \$3,500      | \$4,000         |

| MAGI               | Under Age 50 | Age 50 and Over |
|--------------------|--------------|-----------------|
| \$134,000          | \$3,150      | \$3,600         |
| \$135,000          | \$2,800      | \$3,200         |
| \$136,000          | \$2,450      | \$2,800         |
| \$137,000          | \$2,100      | \$2,400         |
| \$138,000          | \$1,750      | \$2,000         |
| \$139,000          | \$1,400      | \$1,600         |
| \$140,000          | \$1,050      | \$1,200         |
| \$141,000          | \$700        | \$800           |
| \$142,000          | \$350        | \$400           |
| \$143,000 and over | \$0          | \$0             |

- ▶ If a single individual is an active participant in an employer sponsored retirement plan, their IRA contributions may be deductible depending on their MAGI.

**Single individual:** Deductible IRA contribution limit for 2024 is the lesser of the amount shown below or 100% of compensation.

| MAGI               | Under Age 50 | Age 50 and Over |
|--------------------|--------------|-----------------|
| \$77,000 and under | \$7,000      | \$8,000         |
| \$78,000           | \$6,300      | \$7,200         |
| \$79,000           | \$5,600      | \$6,400         |
| \$80,000           | \$4,900      | \$5,600         |
| \$81,000           | \$4,200      | \$4,800         |
| \$82,000           | \$3,500      | \$4,000         |

| MAGI              | Under Age 50 | Age 50 and Over |
|-------------------|--------------|-----------------|
| \$83,000          | \$2,800      | \$3,200         |
| \$84,000          | \$2,100      | \$2,400         |
| \$85,000          | \$1,400      | \$1,600         |
| \$86,000          | \$700        | \$800           |
| \$87,000 and over | \$0          | \$0             |

# Traditional IRA *(continued)*

- If an individual is married and files a separate tax return and either spouse is an active participant in an employer sponsored retirement plan, their IRA contributions are phased out completely at a MAGI of \$10,000.

**Married individual filing separately:** Deductible IRA contribution limit for 2024 is the lesser of the amount shown below or 100% of compensation.

| MAGI    | Under Age 50 | Age 50 and Over | MAGI              | Under Age 50 | Age 50 and over |
|---------|--------------|-----------------|-------------------|--------------|-----------------|
| \$0     | \$7,000      | \$8,000         | \$6,000           | \$2,800      | \$3,200         |
| \$1,000 | \$6,300      | \$7,200         | \$7,000           | \$2,100      | \$2,400         |
| \$2,000 | \$5,600      | \$6,400         | \$8,000           | \$1,400      | \$1,600         |
| \$3,000 | \$4,900      | \$5,600         | \$9,000           | \$700        | \$800           |
| \$4,000 | \$4,200      | \$4,800         | \$10,000 and over | \$0          | \$0             |
| \$5,000 | \$3,500      | \$4,000         |                   |              |                 |

## Distributions from Traditional IRAs

- Owners may take a withdrawal from their IRA at any time; however, the withdrawal is subject to a 10% penalty tax, in addition to ordinary income tax, unless the distribution qualifies under one of several exceptions, including:
  - Owner has attained age 59½
  - Substantially equal periodic payments over IRA owner’s life or life expectancy
  - Death or disability of IRA owner
  - Medical expenses in excess of 7.5% of adjusted gross income
  - Qualified higher education expenses (i.e., tuition, fees, books, supplies, etc.)
  - First home purchase (\$10,000 lifetime limit)
  - Made during one-year period beginning on date of birth of owner’s child or eligible adoption of child (up to \$5,000 per child)\*
  - Terminal illness (death expected within 84 months)\*
- Required minimum distributions must begin by April 1 of the year following the year IRA owner attains age 73:\*\*

## Common Users

- Individuals not currently participating in or contributing to an employer sponsored retirement plan.
- Individuals interested in a rollover vehicle for retirement plans, such as a 401(k), 457(b), 403(b), defined benefit pension plan, SEP IRA or SIMPLE.

\*Subject to certain requirements, distributions may be recontributed to a rollover eligible retirement plan within three years.  
 \*\* Age 72 for individuals who turned 72 before 2023 and after 2019; age 70½ for individuals who turned 70½ before 2020.

# Roth IRA

**Roth IRA** – A nondeductible IRA with income-tax-free distributions

## Differences between Roth IRAs and Traditional IRAs

- Roth IRA contributions are made on an after tax basis; they are not deductible. Contributions to traditional IRAs may be tax deductible, depending on whether the individual participates in a retirement plan and their MAGI.
- Roth IRA distributions, including earnings, may be tax free (i.e., a qualified distribution); traditional IRA distributions are tax deferred, generally not tax free.
- Annual Roth IRA contributions can be withdrawn tax free and penalty free at any time.
- Lifetime required minimum distribution rules don't apply to Roth IRAs; they do to traditional IRAs.

## Contribution Limits

- Individual's annual contribution is the lesser of \$7,000 or 100% of compensation; the limit applies to combined contributions to both a traditional IRA and Roth IRA.
- Married couple's annual contribution limit is the lesser of \$14,000 or 100% of compensation; each spouse must maintain a separate IRA, and the \$7,000 limit applies to each separately.
- Catch-up Provision: Individuals age 50 (by the end of the calendar year) or older are permitted to make catch-up contributions of an additional \$1,000 each year, making their annual contribution limit the lesser of \$8,000 or 100% of compensation.

## Roth IRA Eligibility

- Any legal resident of the U.S. of any age who has compensation may establish and contribute to a Roth IRA, depending on their MAGI.

**Single individual:** Roth IRA contribution limit for 2024 is the lesser of the amount shown below or 100% of compensation.

| MAGI                | Under Age 50 | Age 50 and Over | MAGI               | Under Age 50 | Age 50 and Over |
|---------------------|--------------|-----------------|--------------------|--------------|-----------------|
| \$146,000 and under | \$7,000      | \$8,000         | \$154,000          | \$3,300      | \$3,730         |
| \$147,000           | \$6,530      | \$7,470         | \$155,000          | \$2,800      | \$3,200         |
| \$148,000           | \$6,100      | \$6,930         | \$156,000          | \$2,300      | \$2,670         |
| \$149,000           | \$5,600      | \$6,400         | \$157,000          | \$1,900      | \$2,130         |
| \$150,000           | \$5,100      | \$5,870         | \$158,000          | \$1,400      | \$1,600         |
| \$151,000           | \$4,700      | \$5,330         | \$159,000          | \$900        | \$1,070         |
| \$152,000           | \$4,200      | \$4,800         | \$160,000          | \$500        | \$530           |
| \$153,000           | \$3,700      | \$4,270         | \$161,000 and over | \$0          | \$0             |

# Roth IRA *(continued)*

**Married individual filing jointly:** Roth IRA contribution limit for 2024 is the lesser of the amount shown below or 100% of compensation.

| MAGI                | Under Age 50 | Age 50 and Over | MAGI               | Under Age 50 | Age 50 and over |
|---------------------|--------------|-----------------|--------------------|--------------|-----------------|
| \$230,000 and under | \$7,000      | \$8,000         | \$236,000          | \$2,800      | \$3,200         |
| \$231,000           | \$6,300      | \$7,200         | \$237,000          | \$2,100      | \$2,400         |
| \$232,000           | \$5,600      | \$6,400         | \$238,000          | \$1,400      | \$1,600         |
| \$233,000           | \$4,900      | \$5,600         | \$239,000          | \$700        | \$800           |
| \$234,000           | \$4,200      | \$4,800         | \$240,000 and over | \$0          | \$0             |
| \$235,000           | \$3,500      | \$4,000         |                    |              |                 |

**Married individual filing separately:** Roth IRA contribution limit for 2024 is the lesser of the amount shown below or 100% of compensation.

| MAGI    | Under Age 50 | Age 50 and Over | MAGI              | Under Age 50 | Age 50 and Over |
|---------|--------------|-----------------|-------------------|--------------|-----------------|
| \$0     | \$7,000      | \$8,000         | \$6,000           | \$2,800      | \$3,200         |
| \$1,000 | \$6,300      | \$7,200         | \$7,000           | \$2,100      | \$2,400         |
| \$2,000 | \$5,600      | \$6,400         | \$8,000           | \$1,400      | \$1,600         |
| \$3,000 | \$4,900      | \$5,600         | \$9,000           | \$700        | \$800           |
| \$4,000 | \$4,200      | \$4,800         | \$10,000 and over | \$0          | \$0             |
| \$5,000 | \$3,500      | \$4,000         |                   |              |                 |

# Roth IRA *(continued)*

## Two Requirements for Roth IRA Earnings to be Distributed Tax Free

- Distribution must be made after a five-year holding period.
- Distributions must be made under one of four conditions:
  - Owner has attained age 59½
  - Distribution is paid to a beneficiary at death of owner
  - Owner is disabled
  - Withdrawal is made to pay qualified first-time homebuyer expenses (\$10,000 lifetime limit)

## Penalty Free Withdrawals

- Owner can withdraw money before age 59½ and avoid the 10% excise (penalty) tax on any taxable amount for any of several reasons, including:
  - Substantially equal periodic payments over life or life expectancy
  - Medical expenses in excess of 7.5% of adjusted gross income
  - New home purchase (\$10,000 lifetime limit)
  - Qualified higher education expenses (i.e., tuition, fees, books, supplies)
  - Death
  - Disability
  - Made during one-year period beginning on date of birth of owner's child or eligible adoption of child (up to \$5,000 per child)\*
  - Terminal illness (death expected within 84 months)\*

## Conversions from Traditional IRA to Roth IRA

- Money can be converted from a traditional IRA to a Roth IRA regardless of the owner's age, amount of annual income or tax filing status. The amount converted generally is taxed as income to the owner in the year of the Roth IRA conversion.

## Common Users

- Individuals expecting to be in a higher tax bracket at retirement than when the Roth IRA contribution or conversion is made.
- Individuals not wanting to have to start taking distributions during their lifetime.
- Individuals seeking some tax diversification at retirement, with both tax deferred and tax free retirement income.

\*Subject to certain requirements, distributions may be recontributed to a rollover eligible retirement plan within three years.



# SEP IRA

## SEP IRA – Simplified Employee Pension

*Small employer retirement plan funding an IRA with discretionary contributions*

### Contribution Limits

- › The SEP IRA employer contribution limit is the lesser of 25% of employee's salary (\$345,000 salary cap as indexed for 2024) or \$69,000 (may be less for an employee/owner).
- › Employer must contribute an equal percentage for the benefit of all eligible employees with immediate vesting of contributions. For example, if a business owner contributes 8% to their own SEP IRA, the employer must contribute 8% for all eligible employees if using IRS Form 5305.
- › Employer contributions only; employee salary deferrals are not permitted except for SAR-SEP plans established before Jan. 1, 1997. SIMPLE IRAs permit employee salary deferrals (see next page).
- › Employer contribution amounts are typically discretionary and set by the employer on a yearly basis.
- › SECURE 2.0 allows employees to elect for employer contributions to be made to a designated Roth IRA and, thus, included in income.\*

### Employee Eligibility Requirements

- › Participant must have been employed by the company during at least three of the last five preceding years.
- › Employee must typically be age 21 or older (however, employer can set plan eligibility age at 18) and have earned at least \$750 in compensation (as indexed for 2024).

### Key Points

- › Loans from SEP IRAs aren't permitted.
- › SEP IRA distributions are taxed as ordinary income, as are distributions from a traditional IRA.
- › SEP IRA may be established as late as due date (including extensions) of employer's tax return.

### Common Users

- › Small employers, sole proprietors or small nonprofit organizations with a limited benefit budget looking to establish a retirement plan that is easy to administer.
- › Factors favoring a SEP IRA include no filing requirements, limited fiduciary liability and less expensive administration than a 401(k), profit sharing or defined benefit retirement plan.
- › Certain small employers may be eligible for a tax credit for the start up costs of new plans.

\*While effective for tax years beginning after 2022, adoption will be delayed due to the need for IRS guidance and subsequent changes to forms and processes.

# SIMPLE IRA

## SIMPLE IRA – Savings Incentive Match Plan for Employees

*Small employer retirement plan funding an IRA with mandatory contributions*

### Contribution Limits

- Employer contribution limit (employer must select one of the two options below):
  - 100% match provided on the first 3% of participating employee's salary deferral. Matching employer contributions are not subject to the annual compensation limit applicable to qualified plans.
    - **Examples: If an employee defers 5% of salary into a SIMPLE IRA, the employer must contribute 3% to the employee's account. If employee defers 1% of salary, employer must contribute 1%.**
  - 2% non-elective contribution provided for all eligible employees (regardless of participation). Non-elective employer contributions are subject to the annual compensation limit applicable to qualified plans.
    - If employer elects this option, the maximum employer contribution is \$6,900 (\$345,000 cap x 2% in 2024).
- Employee deferral limit: \$16,000 per plan year (indexed for 2024); up to 100% of compensation.
  - Employees age 50 (by the end of the calendar year) or older are permitted an additional \$3,500 catch-up contribution for 2024, provided the plan permits, for a total elective deferral of \$19,500.
- SECURE 2.0 Act allows SIMPLE IRAs to accept Roth contributions.\*

### Plan Eligibility Requirements

- Any type of business with 100 or fewer employees may establish a SIMPLE IRA; however, no other qualified plan, 403(b), SEP IRA or 457(b) plan can be maintained.
- Employer must notify participants of 60-day election period before the calendar year end to elect salary deferral or modify a prior election, making the adoption deadline Oct. 1.
- Employer must provide employee with a Summary Plan Description and account statements within 30 days of the end of a calendar year. Contributions must be made between Jan. 1 and Dec. 31.
- Employer must include any employee who earned \$5,000 in any two previous years and is expected to earn \$5,000 during current year (exception: employees subject to collective bargaining).

\*While effective for tax years beginning after 2022, adoption will be delayed due to the need for IRS guidance and subsequent changes to forms and processes.

# SIMPLE IRA *(continued)*

## Key Points

- SIMPLE IRAs replaced SAR-SEP IRA plans on Jan. 1, 1997.
- Withdrawals can't be restricted; however, withdrawals within the first two years of the employee's initial contribution may be subject to a higher early withdrawal penalty tax in addition to income tax.
- All employer and employee contributions are 100% vested immediately.
- Participant loans are not permitted.
- No discrimination testing, annual reporting or administration fees.
- No discrimination testing means highly compensated employees can defer up to \$16,000 annually (\$19,500 if age 50 or older by the end of the calendar year), regardless of the amount deferred by lower compensated employees.

## Penalty Free Distributions

- Distributions before age 59½ can avoid the 10% early withdrawal penalty (25% if within the first two years) under any of several exceptions, including:
  - Death
  - Disability
  - Substantially equal periodic payments over life or life expectancy of SIMPLE IRA owner
  - Medical expenses in excess of 7.5% of adjusted gross income
  - Qualified higher education expenses (i.e., tuition, fees, books, supplies, etc.)
  - First home purchase (\$10,000 lifetime limit)
  - Made during one-year period beginning on date of birth of owner's child or eligible adoption of child (up to \$5,000 per child)\*
  - Terminal illness (death expected within 84 months)\*

## Common Users

- Small nonprofit organizations and small businesses with limited benefits budgets interested in a retirement plan that is inexpensive and easy to administer may find a SIMPLE IRA a good fit.
- Employers with 401(k) plans in force may not be interested in switching to a SIMPLE IRA plan because 401(k) plans are generally more flexible.
- Certain small employers may be eligible for a tax credit for the start up costs of new plans.

\*Subject to certain requirements, distributions may be recontributed to a rollover eligible retirement plan within three years.

# SIMPLE 401(k)

## SIMPLE 401(k) – Savings Incentive Match Plan for Employees

*Small employer retirement plan using a simplified 401(k) as the funding vehicle*

### Contribution Limits

- Employer contribution limit (employer must select one of the two options below):
  - 100% match provided on the first 3% of participating employee's salary deferral.
    - **Examples: If an employee defers 5% of salary into a SIMPLE 401(k), the employer must contribute 3% to employee's account. If employee defers 1% of salary, employer must contribute 1%.**
    - If employer elects this option, the maximum employer contribution is \$10,350 (\$345,000 cap x 3% in 2024).
  - 2% non-elective contribution provided for all eligible employees (regardless of participation).
    - If employer elects this option, the maximum employer contribution is \$6,900 (\$345,000 cap x 2% in 2024).
- Employee deferral limit: \$16,000 per plan year (indexed for 2024); up to 100% of compensation.
  - Employees age 50 (by the end of the calendar year) or older can make an additional \$3,500 catch-up contribution for 2024, for a total contribution limit of \$19,500.

### Plan Eligibility Requirements

- Any nongovernmental business with 100 or fewer employees may establish a SIMPLE 401(k); however, no other qualified retirement plan, 403(b) plan or SEP IRA can be maintained for eligible employees.
- Employer must notify participants of 60-day election period prior to the calendar year end to elect salary deferral or modify a prior election, making the plan adoption deadline Oct. 1.
- Employee deferrals generally cannot be distributed before age 59½, death, disability, termination from employment or hardship and are subject to income tax and a possible 10% penalty tax on premature distributions.
- Employees may contribute to a SIMPLE 401(k) if they have 1,000 service hours in a prior year and have attained age 21. Employer may exclude nonresident aliens and certain employees subject to collective bargaining.
- A SIMPLE 401(k) plan can be converted to a traditional 401(k), and vice versa.
- The plan must be maintained on a calendar year basis (i.e., contributions are made and employee earnings relate to a period from Jan. 1 to Dec. 31).

# SIMPLE 401(k) *(continued)*

## Key Points

- › All employer and employee contributions are immediately 100% vested.
- › Participant loans are permitted if allowed by the plan document.
- › No discrimination testing is required.
- › Employers with SIMPLE 401(k) plans are subject to administrative expenses for plan document filing and amendments, Form 5500 Schedule A IRS filing and IRC Sec. 415 limit testing.

## Penalty Free Distributions

- › Distributions before age 59½ can avoid the 10% early withdrawal penalty under any of several exceptions, including:
  - Death
  - Disability
  - Substantially equal periodic payments over life or life expectancy of the participant
  - Medical expenses in excess of 7.5% of adjusted gross income
  - Separation from service at age 55 or older
  - Distributions to a nonparticipant pursuant to a qualified domestic relations order (QDRO)
  - Made during one-year period beginning on date of birth of owner's child or eligible adoption of child (up to \$5,000 per child)\*
  - Terminal illness (death expected within 84 months)\*

## Common Users

- › SIMPLE 401(k) plans are more attractive than SIMPLE IRA plans for businesses interested in loan provisions, more restrictive hours requirements for eligibility, exclusion of employees under age 21 or creditor protection under the Employee Retirement Income Security Act (ERISA).
- › Employers with 401(k) plans in force should consider moving to a SIMPLE 401(k) plan if the employer is struggling to meet top-heavy requirements, is unable to meet nondiscrimination testing requirements or if highly compensated employees are unable to defer up to \$16,000 due to failing 401(k) plan discrimination testing requirements.
- › Certain small employers may be eligible for a tax credit for the start up costs of new plans.

\*Subject to certain requirements, distributions may be recontributed to a rollover eligible retirement plan.

# SIMPLE IRA v. SIMPLE 401(k): Major Differences

|  | SIMPLE IRA   | SIMPLE 401(k)   |
|--|--|---|
| <b>Employer Eligibility Requirements</b> | None   | 100 or fewer employees and no other retirement plans  |
| <b>Employee Eligibility Requirements</b> | Any employee earning \$5,000 or more in any two prior years and expected to earn \$5,000 in the current year                                       | Any employee at least age 21 and with 1,000 hours of service in a prior year (or less if allowed by plan document)  |
| <b>Employee Deferral Limit</b>           | Lesser of \$16,000 per plan year or 100% of compensation (\$19,500 if age 50 or older)   | Lesser of \$16,000 per plan year or 100% of compensation (\$19,500 if age 50 or older)  |
| <b>Employer Contribution Limit</b>       | If employer elects 3% deferral option, up to \$16,000 annually;<br>If employer elects 2% deferral option, up to \$6,900 annually (\$345,000 x .02) | If employer elects 3% deferral option, up to \$10,350 annually (\$345,000 x .03); If employer elects 2% deferral option, up to \$6,900 annually (\$345,000 x .02) |
| <b>Participant Loans</b>                 | Not permitted  | Permitted if allowed by plan document   |
| <b>Rollovers</b>                         | To IRA or qualified plan only after two years; may roll into another SIMPLE IRA before two years   | To IRA or qualified plan immediately  |
| <b>Excise/Penalty Tax</b>                | Withdrawals before age 59½ subject to 10% tax (25% if in first two years) unless exception applies   | Withdrawals before age 59½ subject to 10% tax unless exception applies  |
| <b>Competitive Advantage</b>             | Minimal administration expenses, and no IRS Form 5500 filings or IRC section 415 limit testing   | Loans permitted; may have more restrictive eligibility requirements; exclusion of employees under 21; and creditor protection under ERISA                         |

# Defined Benefit Pension Plans

**Defined Benefit Plan** – *Funded with employer contributions based on amount required to provide determinable future income benefits to plan participants*

## Employer Contribution Limits

- › Annual defined benefit amount for a participant cannot exceed the lesser of \$275,000 or 100% of the employee's highest three years' consecutive compensation (indexed for 2024).
- › Annual compensation taken into account for qualified plans is \$345,000.
- › Deduction of contributions is based on actuarial assumptions and computations. Therefore, an actuary must determine plan deductible annual contribution limit.
- › Gains in excess of actuarial assumptions may be used to reduce contribution in the following year.

## Key Points

- › Allows an employer to create a substantial retirement income benefit for employees.
- › Can be used in conjunction with, or instead of, a defined contribution plan.
- › Plan may be established as late as due date (including extensions) of employer's tax return.

**412(e)(3) Plan** – *A defined benefit plan funded exclusively with annuities or a combination of life insurance and annuities to create a guaranteed retirement income benefit*

## 412(e)(3) Plan Opportunities

- › Exempt from minimum funding requirements because 412(e)(3) plans are fully insured.
- › Tax deductible contributions not subject to the funding limitations of a traditional qualified plan; as a result, contributions are generally larger and more flexible.
- › Easier to implement, may be less costly and less complex to employ than typical defined benefit plan.
- › Plan may be established as late as due date (including extensions) of employer's tax return.

## How It Works

- › The plan trustee purchases a combination of life insurance and annuities inside the 412(e)(3) plan to fund future retirement income benefits for plan participants.
- › Plan participation begins when an employee has met eligibility requirements and ends no later than employee's retirement date as specified in the plan document.

## Common Users

- › Successful small businesses (typically owner only) with significant consistent cash flow.

# Defined Benefit Pension Plans *(continued)*

**Cash Balance Plan** – *Hybrid defined benefit plan combining features of defined contribution and defined benefit plans*

## Employer Contribution Limits

- › Annual compensation taken into account for benefit calculations is \$345,000 (indexed for 2024).
- › Formula may be based on either a lump sum or an accrued benefit.
- › Contribution amount is based on actuarial assumptions and computations; consequently, an actuary must determine the plan deductible contribution limit.

## Key Points

- › Like a defined benefit plan, there is a specified benefit at retirement.
- › Like a defined contribution plan, each participant has an account balance (although it is hypothetical).
- › Employer must contribute an amount determined by an actuary.
- › Unlike defined benefit plans, cash balance plans typically offer a lump sum distribution option at retirement, termination of employment, death and disability.
- › May be combined with a 401(k) profit sharing plan to enhance the overall plan design.

## Advantages

- › Account balance approach may hold more meaning for younger employees further from retirement age.
- › Provides portability not provided by a traditional defined benefit plan.
- › Tax deduction for the contribution can be significantly higher than a defined contribution plan.



# Defined Contribution Pension Plans

**401(a) Money Purchase Pension Plan** – *A qualified retirement plan funded with mandatory employer contributions*

## Employer Contribution Limits

- Lesser of \$69,000 or 100% of employee's salary (indexed for 2024):
  - Employer contributions are mandatory and based on a percentage of the employee's salary.
  - Employer contributions are deductible up to 25% of employee's compensation, with a maximum of \$69,000 (2024).

## Key Points

- Loans are permitted if allowed by the plan document.
- Permitted distributions may roll over to an IRA established by the employee or to a new employer's retirement plan if permitted by the new employer's plan.
- Distributions generally aren't permitted before:
  - Death
  - Disability
  - Attainment of normal retirement age
  - Termination of employment
  - Termination of the plan
- May be less desirable than a profit sharing plan because employee salary deferrals are not allowed and employer contributions are mandatory.
- Plan may be established as late as due date (including extensions) of employer's tax return.

## Common Users

- Employers with steady cash flows, younger key employees and interest in a more easily communicated plan.
- Employer who want to provide a retirement benefit without the complexity of a defined benefit plan.
- Certain small employers may be eligible for a tax credit for the start up costs of new plans.

# Defined Contribution Pension Plans *(continued)*

**401(a) Profit Sharing Plan** – *A qualified retirement plan designed to share company profits with employees*

## Employer Contribution Limits

- Lesser of \$69,000 or 100% of employee’s salary (indexed for 2024):
  - Employer contributions are optional and made in years elected at the employer’s discretion, but contributions must be “substantial and recurring.”
  - Employer contributions are deductible up to 25% of employee’s compensation, with a maximum of \$69,000 (2024).

## Key Points

- Nondiscriminatory amount of after-tax employee contributions, provided allowed by plan document.
  - Employee contributions are 100% vested at all times.
- Loans are permitted provided allowed by the plan document.
- Eligible distributions may roll over to an IRA established by the employee or to a new employer’s retirement plan provided allowed by the new employer’s plan.
- In-service withdrawals are permitted after a stated period of time (possibly as early as two years after such funds were contributed).
- Distributions before age 59½ may be subject to a 10% early distribution penalty unless an exception applies.
- Plan may be established as late as due date (including extensions) of employer’s tax return.

## Types of Profit-Sharing Plans

- Age weighted profit sharing plan: plan designed to allow contributions to be allocated among employees in amounts based on each employee’s age.
- New comparability (cross tested) profit sharing plan: plan designed to allow allocation of contributions to employees in varying amounts based on each employee’s age, compensation and/or job classification.
- See following page for profit sharing plan that permits salary deferral.

## Common Users

- Employers with variable cash flows from year to year may be attracted to the flexibility offered by discretionary contributions.
- Employers with a significant age disparity between business owner(s) and employees could benefit from age weighted allocations without the cost and complexity of a defined benefit pension plan.
- Certain small employers may be eligible for a tax credit for the start up costs of new plans.

# 401(k) Plan

**401(k) Plan** – *A qualified profit sharing plan with a salary deferral feature*

## Employer Contribution Limits

- Lesser of \$69,000 or 100% of employee's salary (indexed for 2024):
  - This limit includes what the employee contributes by elective deferral into their account.
  - Employer contributions can be discretionary and/or matching (based on employee's salary deferral percentage).
  - Employer contribution is not mandatory unless specified in the plan document or if plan is top heavy; however, if a plan is top heavy, the highest employer contribution percentage is 3% for all eligible employees.
  - Vesting schedule of employer contributions stated in plan document.

## Employee Deferral Limit

- \$23,000 per plan year (indexed for 2024) up to 100% of compensation:
  - Employee contributions are 100% vested immediately and cannot be forfeited.
  - Employees age 50 (by the end of the calendar year) or older are permitted to make an additional \$7,500 catch-up elective deferral contribution for 2024, for a total annual elective deferral contribution limit of \$30,500.

## Key Points

- Loans are permitted provided allowed by the plan document.
- Withdrawals of employee deferrals aren't permitted before:
  - Attainment of age 59½ (if plan document allows)
  - Death
  - Disability
  - Financial hardship
  - Termination of employment
  - Qualified reservist distributions
- Distributions before age 59½ may be subject to a 10% early distribution penalty unless an exception applies.
- Permitted distributions generally may roll over to an IRA established by the employee or to a new employer's retirement plan provided allowed by the new employer's plan.
- Solo 401(k) plans of sole proprietors (and single member LLCs) may be established as late as the due date of the solo owner's tax return (not including extensions) for the previous year and may receive employer contributions and retroactive elective deferrals for that first year.

# 401(k) Plan *(continued)*

## IRS Required Testing

- **Top Heavy Test:** A plan is considered to be top heavy if the employer's contributions to key-employee accounts are greater than 60% of the employer contributions to non-key-employee accounts.
- **Actual Deferral Percentage (ADP) Test:** An extra nondiscrimination test required by 401(k) plans that restricts highly compensated employees from deferring a percentage of their annual salary far above the percentage deferred by non-highly compensated employees; the plan must satisfy either the 125% or the 200%/2% ADP test.
- **Actual Contribution Percentage (ACP) Test:** Employer matching contributions and after-tax employee contributions to the profit sharing portion of a 401(k) plan must meet similar nondiscrimination testing; the plan must satisfy either the 125% or the 200%/2% ACP test.
- **Safe Harbor Opportunity:** Highly compensated employees may contribute the full \$23,000 deferral limit permitted for 2024 if a 401(k) plan satisfies one of the following safe harbor requirements:
  - Matching contribution by the employer of 100% of the first 3% deferred and 50% of the next 2% deferred
  - 3% nonelective employer contribution to all eligible employees (this option is the default selection for top heavy plans)

## Penalty Free Distributions

- Distributions before age 59½ can avoid the 10% early withdrawal penalty under any of several exceptions, including:
  - Death
  - Disability
  - Substantially equal periodic payments over life or life expectancy
  - Medical expenses in excess of 7.5% of adjusted gross income
  - Separation from service at age 55 or older
  - Distributions to nonparticipants pursuant to a qualified domestic relations order (QDRO)
  - Made during one-year period beginning on date of birth of owner's child or eligible adoption of child (up to \$5,000 per child)\*
  - Terminal illness (death expected within 84 months)\*

## Common Users

- Employers seeking a proven way to attract and retain high quality employees and interested in giving participants an opportunity to save additional amounts on a pre-tax basis.
- Certain small employers may be eligible for a tax credit for the start-up costs of new plans.
- **Safe Harbor 401(k) Plan:**
  - Businesses expecting or experiencing low employee participation in current 401(k) plan.
  - Businesses looking to eliminate ADP and/or ADP testing required by current 401(k) plan.

\*Subject to certain requirements, distributions may be recontributed to a rollover eligible retirement plan.

# 401(k) Plan *(continued)*

## Designated Roth 401(k) Accounts

401(k) designated Roth contributions are after-tax salary contributions accepted by 401(k) plans allowing such contributions.

- If a 401(k) plan adopts a designated Roth account feature, employees can direct some or all of their elective contributions to be designated Roth account contributions, which are included in gross income rather than being classified as traditional, pre-tax elective deferral contributions.
- Designated Roth account contributions must be kept separate from previous and current 401(k) pre-tax elective deferral contributions; a separate, designated Roth account must be established for each participant making contributions to a designated Roth account.
- Once a payment is designated as a Roth account contribution, it cannot be changed later to a pre-tax elective deferral 401(k) contribution.

**In-Plan Roth Conversion Rules:** Participants in 401(k), 403(b) and governmental 457(b) retirement plans offering a designated Roth account can convert any non-Roth account to a Roth account within the plan, regardless of whether the converted funds can be distributed from the retirement plan at the time of conversion. This rule doesn't allow transfers out of a plan to a Roth IRA. Converted amounts are taxed as ordinary income, but aren't subject to mandatory withholding or 10% early withdrawal penalty.

**Employee Contribution:** An employee can make contributions to both a designated Roth 401(k) account and to a pre-tax 401(k) account in the same year and in any proportion. However, the combined amount contributed in any one year is subject to employee deferral limit – \$23,000 for 2024, plus an additional \$7,500 catch-up contribution if age 50 or older – for a total contribution limit of \$30,500.

**Employer Contribution:** Only an employee's designated Roth elective deferral contributions can be made to a designated Roth 401(k) account.

**Penalty-Free Withdrawals:** Earnings withdrawn are included in gross income unless the participant has maintained the designated Roth 401(k) account for five years and has attained age 59½, dies or is disabled.

## 401(k) Mirror Nonqualified Deferred Compensation Plan

May be offered in conjunction with a 401(k) plan and may involve a corporate owned life insurance policy. Allows highly compensated employees to reduce their taxable wage base by deferring receipt of pre-tax compensation and is not restricted by rules governing qualified retirement plans. Employer cannot take a deduction of the salary amount deferred in the year of deferral. Deduction is taken when benefit is paid to employee.

- Primary goal is to attract, retain, reward and retire key employees by providing a deferral option in addition to amounts deferred into a traditional 401(k) plan.
- A rabbi trust is sometimes used to segregate the assets to provide security in the event of a change in company ownership or management.
- In order to avoid ERISA's funding and vesting requirements, participants in the plan must be limited to a "select group of management or highly compensated employees" (i.e., a top hat plan).

# 403(b) Plan

**403(b) Plan** – *A tax sheltered investment used to accumulate retirement savings, typically through salary deferral*

## Eligibility

- Available to 501(c)(3) tax-exempt organizations, public schools and universities (for-profit corporations can't establish a 403(b) plan):
  - 501(c)(3) organizations: nonprofit groups, with special tax exemptions, organized and operated for religious, charitable, scientific or educational purposes at zero-profit levels.
  - Public schools: institutions must maintain a faculty, curriculum and student body (i.e., not available for home schooling situations).

## Employer Contribution Limits

- Lesser of \$69,000 or 100% of employee's salary (indexed for 2024):
  - Employer contributions can be discretionary and/or matching (based on employee's 403(b) deferral).
  - A vesting schedule for employer contributions is included in the 403(b) plan document.

## Employee Contribution Limits

- The lesser of \$23,000 per plan year (indexed for 2024) or 100% of compensation:
  - Employee contributions are 100% vested immediately and cannot be forfeited.
  - Employees age 50 (by the end of a calendar year) or older are permitted to make an additional \$7,500 catch-up contribution for 2024 for a total contribution limit of \$30,500.

## ERISA v. Non-ERISA 403(b) Plans

| ERISA 403(b) Plans  | Non-ERISA 403(b) Plans                                 |
|---|--|
| Allow for both employee and employer contributions                      | Participation is voluntary                             |
| Employer contributions may be subject to a vesting schedule             | Employee deferral contributions only                   |
| Employer involved in administration of loans and hardship distributions | Employer involvement in plan administration is limited |

# 403(b) Plan *(continued)*

## Key Points

- Written 403(b) plan document is required.
- 403(b) contract exchanges/transfers require the issuer to maintain the contract under a written plan document and enter into an information sharing agreement with the sponsoring employer.
- Incidental life insurance, unless grandfathered, cannot be part of a 403(b) plan.
- Withdrawals of employee deferrals from 403(b) annuity contracts are generally not permitted before:
  - Attainment of age 59½ (if plan document allows)
  - Death
  - Disability
  - Financial hardship
  - Termination of employment
- Elective deferral amounts may not be distributed merely by reason of the lapse of a fixed number of years.
- Permitted distributions may generally roll over to an IRA established by the employee or to a new employer's retirement plan if permitted by the new employer's plan.

## Penalty Free Distributions

- Distributions before age 59½ can avoid the 10% early withdrawal penalty under any of several exceptions, including:
  - Death
  - Disability
  - Substantially equal periodic payments over life or life expectancy
  - Medical expenses in excess of 7.5% of adjusted gross income
  - Separation from service after age 55
  - Distribution pursuant to a QDRO
  - Made during one-year period beginning on date of birth of owner's child or eligible adoption of child (up to \$5,000 per child)\*
  - Terminal illness (death expected within 84 months)\*

## Common Users

- Schools, hospitals, religious organizations, charities and colleges/universities.

\*Subject to certain requirements, distributions may be recontributed to a rollover eligible retirement plan.

# Nonqualified Supplemental Retirement Programs

## Insurance Based Retirement Program

### Goal

To supplement retirement income while providing life insurance protection in the event of an employee's premature death.

### How It Works

- › Individual or employer pays the premium to fund a life insurance policy owned by the employee.
- › Employee names their desired policy beneficiary or beneficiaries.
- › At retirement, the policy owner may take partial surrenders (up to the amount of total premiums paid) and loans from the policy on a non-taxable basis (if set up properly) to supplement retirement income.
- › These statements assume the life insurance contract remains in force and qualifies as life insurance under section 7702 of the Internal Revenue Code, and is not a Modified Endowment Contract (MEC) under section 7702A. Loans and partial surrenders from a MEC are generally taxable and, if taken before age 59½, may be subject to a 10% penalty tax. Loans and partial surrenders reduce the amount of any death benefits payable.
- › At the insured's death, policy beneficiaries receive death benefit proceeds generally income tax free.

### Benefits/Advantages

- › The withdrawal method (i.e., first in, first out) depletes the principal in the policy (tax free) first, followed by policy loans. **Note:** As detailed above, in order for the life insurance policy to retain its tax advantages, it must remain in force and not be classified as a MEC. If the policy lapses, the gain/earnings are taxed as ordinary income.<sup>1</sup>
- › Partial surrenders are distributed on a first in, first out basis (after-tax premiums first, as long as policy remains a non-MEC).
- › Beneficiaries are provided replacement income in the event of an employee's premature death
- › Beneficiaries receive death benefit proceeds generally income tax free (IRC section 101(a)).
- › No additional fees, administration or discrimination testing is required.
- › Liberal funding levels (relative to a qualified plan).
- › Cash value grows tax deferred, providing greater growth potential?<sup>2</sup>
- › Cash value in the policy may be available for emergencies or financial planning needs.

### Common Users

- › Sole proprietors, small business owners and high-net-worth individuals who have maximized other retirement plan contributions and seek to supplement their retirement income in a tax advantaged manner.

<sup>1</sup> Policy Benefits in some cases are mutually exclusive. Loans will accrue interest. Loans and withdrawals may generate an income tax liability, reduce the Account Value and the Death Benefit, and may cause the policy to lapse. There may be adverse tax implications for a policy classified as a modified endowment contract (MEC) or if the amount of your loans and/or partial surrenders exceeds the cost basis of the policy. Distributions, including loans, from an MEC are taxable to the extent of the gain in the policy and may also be subject to 10% additional tax if the owner is under age 59½.

<sup>2</sup> Keep in mind, cash value may take many years to accumulate, unless a large premium is paid up front. A financial professional can help determine if taking a loan or withdrawal is right for you.



# Nonqualified Supplemental Retirement Programs *(continued)*

## Executive Bonus Plan — IRC Section 162

### Goal

To retain and reward key employees by making a taxable contribution into a life insurance policy owned by the insured employee. The employer premium contribution is tax deductible by the employer as compensation and is a taxable bonus to the employee.

### Estate Planning

If the employee wants to exclude the policy from his or her gross taxable estate upon death, the initial applicant and owner of the policy should be a third party (e.g., spouse or trustee), and the employee should not retain any incidents of ownership in the policy.

### Benefits to Employer

- › Employer rewards and retains key employees, while supplementing their retirement income.
- › Selective participation is allowed without violating ERISA/IRS nondiscrimination rules.
- › Premiums paid by the employer may provide an immediate employer tax deduction.
- › Administration cost is minimal due to the simplicity of setup and implementation.
- › Amounts of coverage on various employees/executives can differ.
- › Plans can be established or terminated without IRS notice, approval or restriction.

### Benefits to Executives

- › Supplemental retirement assets can be accumulated.
- › Beneficiaries receive generally income-tax-free death benefit proceeds (IRC section 101(a)).
- › Key employee/executive controls and owns the life insurance policy.
- › Cash value grows income tax deferred.

### Key Points

- › Employer cannot be the owner or a beneficiary of the insurance policy.
- › The premium paid by the employer is considered additional compensation to the employee and will be taxed as ordinary income to the employee.
- › The premium paid by the employer must be considered "reasonable compensation" when added to all other compensation for the employer to receive an income tax deduction.
- › If the goal is to retain key personnel for a period of time, a written agreement between the employer and employee, such as a Restricted Employee Benefit Agreement (REBA), may help.

### Common Users

- › C corporations
- › S corporations (for employees only)
  - S corporations may want to consider as an alternative to a split-dollar plan
- › Partnerships (for employees only)
- › Limited liability companies (for employees only)
- › Sole proprietorships (for employees only)

# Nonqualified Supplemental Retirement Programs *(continued)*

## Split Dollar Arrangement

### Goal

To retain and reward key employees by dividing the cost of a life insurance policy between employer and employee while accumulating cash value on a tax deferred basis.

### Benefits to Employer

- › Discrimination in favor of owners and key employees is permitted.
- › The employer's share of premiums is secured/protected within the policy.
- › The plan is exempt from ERISA vesting, funding and participation rules.

### Policy Ownership

- › **Endorsement method:** The employer owns the policy and the cash value; the employee's interest is recorded as a policy endorsement.
  - A written endorsement is typically filed with the insurance company issuing the policy.
  - Employer is required to provide a plan summary to all participants.
  - Under current regulations, the endorsement method is taxed under the traditional split-dollar agreement economic benefit rules described below:
    - Employer pays the premiums required.
    - Employee is taxed on the economic benefit of life insurance coverage to the extent that the employer pays the premium and is not repaid by the employee.
    - The economic benefit includes the value of current life insurance protection (Table 2001 values or annual renewable term insurance rates).
- › **Loan regime method:** The employee owns the policy and the cash value; the employer's interest is secured by a collateral assignment of the contract.
  - A written collateral assignment is typically filed with the insurance company issuing the policy.
  - Funds provided by the employer under the loan regime method will be treated as a series of loans; the employee will be taxed on any interest not paid or capitalized into loan principal.
  - If the employee is not obligated to repay the loan, the funds will be treated as current compensation to the employee.

### Common Users

- › Either a C corporation or a closely held business desiring to provide additional life insurance or supplemental retirement resources for a limited and select group of key employees.
- › Lower corporate tax rates favor a split dollar strategy — lower-rate entity uses nondeductible premium dollars and higher-rate individuals minimize tax exposure by recognizing only economic benefit or loan interest (rather than recognizing the entire premium as they would with an executive bonus plan).

# Nonqualified Supplemental Retirement Programs *(continued)*

## *Deferred Compensation Plan: Supplemental Executive Retirement Plan (SERP)*

### Goal

To retain and reward talented/valuable key employees by providing an additional incentive (i.e., deferred compensation) to them and their families for remaining employed with the company.

### How It Works

- A corporation purchases a life insurance policy to help fulfill its contractual agreement with certain key employees to provide future benefits. The policy cash value and death benefit may be used to offset the employer's financial contributions.
- A deferred compensation agreement is typically designed to guarantee key employees a prearranged payout at retirement (or to their survivors if the employee dies before retirement), if they remain employed by and fulfill their contractual obligations to the employer.
- A corporation (employer) owns the policy and uses it to informally fund deferred compensation benefits.
- If key employees don't fulfill their contractual commitment, they forfeit the deferred compensation to employer.
- Employer-owned policies on the life of an employee with the death benefit payable to the employer must meet the notice and consent rules of IRC section 101(j).

### Common Users

- C corporations compensating executives while retaining maximum control over the policy. Cost recovery by the corporation for its life insurance expense may be part of a plan design. A tax deduction is available when benefits are paid out to key employees.
- Closely held businesses interested in providing a substantial benefit to owners and key personnel without including all employees.

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# Financial Futures Built on Bedrock



## Strong Issuer Ratings<sup>1</sup>

- AA/Very Strong – Fitch
- AA-/Very Strong – Standard & Poor's
- Aa3/Excellent – Moody's

96

## Strong Comdex Ranking<sup>2</sup>

- Comdex is a composite of industry ratings.
- We rank in the upper tier of a 1-100 scale.



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**Others – 3.6%**



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Life policies have **mortality** risk. Annuities have **longevity** risk. We offer both product lines to balance our portfolio and support our strength.

<sup>1</sup> Ratings shown here are correct as of February 2024 and are subject to change. Ratings refer to the claims-paying ability of the insurance company and do not reflect the performance or safety of any investment product. The rating agencies listed above are independent of each other and use proprietary evaluation criteria and rating scale. Ratings are subject to change from time to time. Specific rating details are as follows:

A+ A.M. BEST (Superior) Superior ability to meet ongoing insurance obligations. Second highest of 13 ratings; rating held since June 2009.

AA FITCH (Very Strong) Very strong capacity to meet policyholder and contract obligations on a timely basis. Third highest of 21 ratings; rating held since June 2009.

AA- STANDARD & POOR'S (Very Strong) Very strong financial security characteristics. Fourth highest of 21 ratings; rating held since August 2018.

Aa3 MOODY'S (Excellent) Excellent financial security. Fourth highest of 21 ratings; rating held since February 2009.

Lafayette Life is not rated by Moody's. Gerber Life is rated only by A.M. Best with an A+ (Superior) for Superior ability to meet ongoing insurance obligations (held since February 2024).

<sup>2</sup> Comdex ranking, current as of February 2024, is a composite of all the ratings a company has received from the major rating agencies. It ranks insurers on a scale of 1 (lowest) to 100 in an effort to reduce confusion over ratings because each rating agency uses a different scale.

<sup>3</sup> As of December 31, 2024, total assets were \$75.075 billion, total liabilities were \$64.136 billion, and total equity was \$10.939 billion, as compared to the 3.6% average (as of December 31, 2022) of the 15 largest publicly traded life insurers doing business in the U.S.

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