Selecting the right retirement plan for your organization

Intended for plan sponsor and financial professional use.

Your organization is growing,

and you’re starting to wonder if you should provide a retirement plan for yourself and your employees. There are many benefits to starting a retirement plan.

Would you like to:

- Reduce your organization’s taxes?
- Build vital retirement savings for yourself?
- Provide an attractive retirement plan to recruit, reward, and retain valuable employees?

Choosing a retirement plan can seem daunting. But no matter what your retirement goals are, Principal® is here to help make it simple for you. No matter what stage your company is in, we have products and services to fit your organization’s needs.

You can count on us for:

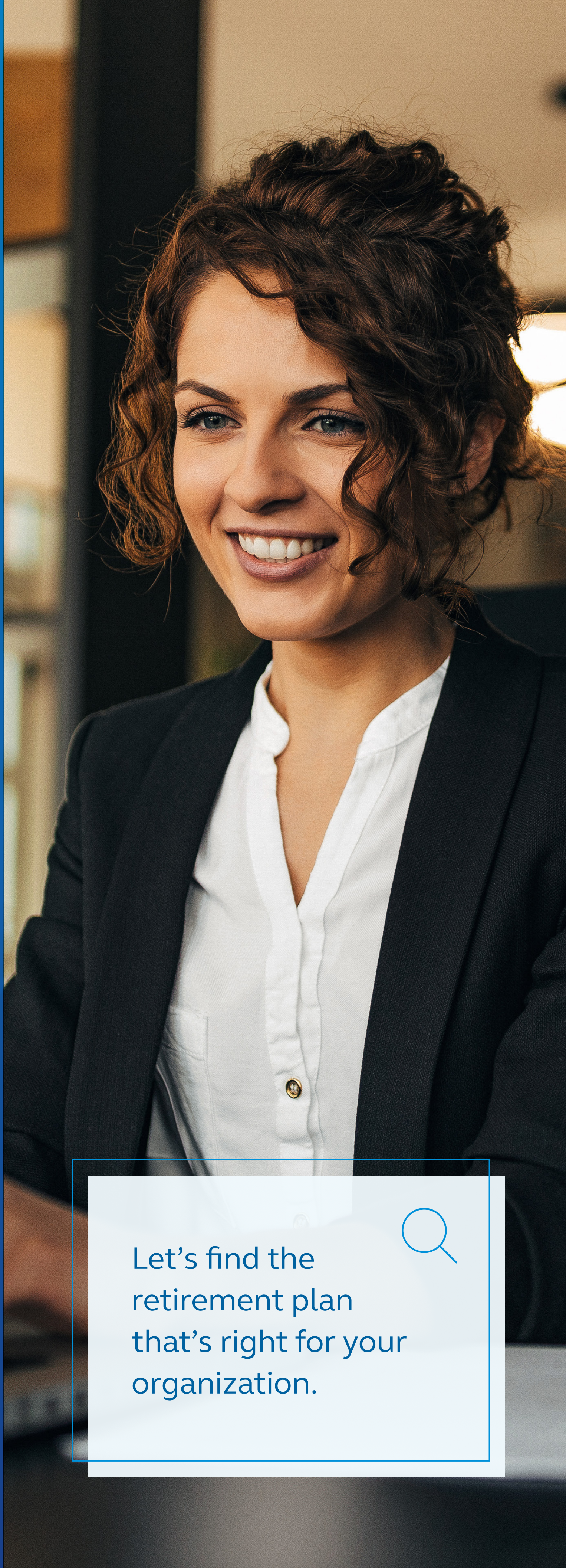
- Retirement plan services: bundled and third party administrator (TPA)
- A diverse range of investment options
- Resources and service options to help you maintain your retirement plan

And you don’t have to figure it out on your own. Your service team and financial professional can help you:

- Sort through the various retirement products and options
- Find possible strategies for your organization
- Walk through the steps to establish your retirement plan
- Educate and enroll your employees

You’re not alone. We’ve worked with thousands of organizations just like yours. Each of them builds, sells, or services something different, but they all have one thing in common: like you, they want a retirement plan tailored to their needs—at a reasonable cost.

This is where we can help. The following pages illustrate available retirement plans. With simple charts, you’ll be able to see the benefits and differences of each plan type. And the case studies give you an idea how each could apply to your situation.



Let’s find the retirement plan that’s right for your organization.

You’ve got options

Use the chart below for a quick overview of the plans available. You can find more details on the following pages.

Considerations	401(k) plan	Safe harbor 401(k) plan[1]
Typical user	All businesses, except government agencies.	All businesses, except government agencies.
Features	• Provides vehicle for pre-tax retirement saving and flexibility • Loans • Roth options	• Provides vehicle for pre-tax retirement saving and flexibility • Loans • Roth options • Maximize deferrals for all employees
Funded by	Employee and employer.	Employee and employer.
Eligibility requirements	Usually employees age 21 or older, immediately eligible.	Usually employees age 21 or older, immediately eligible.
Maximum annual employee contribution	100% of compensation up to $23,000 ($30,500 if over age 50).[2]	100% of compensation up to $23,000 ($30,500 if over age 50).[2]
Employer contributions	Matching and/or profit sharing contributions. Contribution amount can be discretionary each year.	Choice of two minimum required contributions: **1)** Match 100% of first 3% of compensation plus 50% of next 2% of compensation[2] OR **2)** Contribution of 3% of compensation to all eligible employees[2,4] Additional employer contributions may be allowed.
Maximum annual plan additions	The lesser of $69,000 or 100% of Section 415 Compensation.[2,3]	The lesser of $69,000 or 100% of Section 415 Compensation.[2,3]
Maximum tax deductible contribution	25% of eligible compensation.[2]	25% of eligible compensation.[2]
Vesting schedule	Employer chooses vesting schedule based on needs	100% immediate vesting on required match or non-elective contribution. Additional employer contributions may be subject to a vesting schedule.
Plan compliance testing and government reporting	• ADP/ACP[5]—Yes • Top-heavy[6]—Yes • 415 testing[7]—Yes • Government reporting[8]—Yes	• ADP/ACP[5]—Generally no • Top-heavy[6]—Generally no[4] • 415 testing[7]—Yes • Government reporting[8]—Yes

[1] Another safe harbor option is available.

[2] As indexed for the 2024 calendar year. For purposes of maximum contributions, compensation is limited to $345,000 per participant per year.

[3] Based on the sum of employer and employee contributions and forfeitures.

[4] Safe harbor 401(k) plans allowing additional contributions are subject to top-heavy testing.

[5] Federal laws and regulations require that qualified plans don’t discriminate in favor of the highly compensated employees in your organization. These employees are a group of owners and highly paid employees. The IRS developed the Actual Deferral Percentage/Actual Contribution Percentage (ADP/ACP) tests to prove discrimination is not occurring in a plan. The plan must pass the tests and meet the requirements each plan year.

Considerations	SIMPLE IRA	Profit sharing plan	SEP IRA
Typical user	All businesses with fewer than 100 employees, including the self-employed.	All businesses.	All businesses. Most appealing to those with 10 or fewer employees.
Features	Provides vehicle for pre-tax retirement saving and easy administration.	• Allows flexible contributions • Loans	Easy administration and flexibility.
Funded by	Employee and employer.	Employer.	Employer.
Eligibility requirements	Employees earning $5,000 in 2 prior years.	Usually employees age 21 or older with 1 year of service.	Usually employees age 21 or older with any service in at least 3 of the last 5 years.
Maximum annual employee contribution	100% of compensation up to $16,000 ($19,500 if over age 50).[2]	Not applicable.	Not applicable.
Employer contributions	Choice of two required contributions: **1)** Match 100% up to 3% of compensation[2] OR **2)** Contribution of 2% of compensation to all eligible employees.[2] The match can be reduced in 2 out of 5 years. No additional employer contributions are allowed.	Profit sharing contributions can be allocated in several common ways: • Pay-to-pay • Integrated • Comparability Contribution amount is discretionary each year.	Contribution amount is discretionary each year.
Maximum annual plan additions	Not applicable.	The lesser of $69,000 or 100% of Section 415 Compensation.[2,3]	The lesser of $69,000 or 25% of compensation[2,3]
Maximum tax deductible contribution	Not applicable.	25% of eligible compensation.[2]	25% of eligible compensation.[2]
Vesting schedule	100% immediate vesting.	Employer chooses vesting schedule based on needs.	100% immediate vesting.
Plan compliance testing and government reporting	• ADP/ACP[5]—No • Top-heavy[6]—No • 415 testing[7]—No • Government reporting[8]—No	• ADP/ACP[5]—No • Top-heavy[6]—Yes • 415 testing[7]—Yes • Government reporting[8]—Yes	• ADP/ACP[5]—No • Top-heavy[6]—Yes • 415 testing[7]—No • Government reporting[8]—No

[6] Part of maintaining a qualified retirement plan includes determining its top-heavy status each year. To help you with your plan administration and according to Internal Revenue Code § 416, we provide you with account values or perform a top-heavy test for your approval each year. A plan is top-heavy when "key" employees hold more than 60% of its retirement funds in the accounts the plan holds for their benefit. Results of the top-heavy test may affect vesting requirements for a plan year. In addition, a minimum contribution of up to 3% of compensation may be due for the year(s) in which a plan is top-heavy.

[7] Internal Revenue Code Section 415 specifies the amount of contribution that may be allocated to an employee for a "limitation year." If 415 limits are exceeded, the qualified status of the plan may be jeopardized. We perform the 415 limits test each year to verify that the participants stay within these guidelines.

[8] Principal helps produce the Form 5500, audit package and applicable schedules for our clients based on information provided by the clients.

401(k) plan

The 401(k) plan is a very popular retirement plan for companies of all sizes. Small organizations find them to be a good fit because of the following features:

- Flexible plan design.
- Employees can make pre-tax salary deferrals of up to $23,000.[9]
- Your organization may make optional profit-sharing and matching contributions.[10]
- Individuals age 50 and older are allowed to make a $7,500 catch-up contribution if meeting the lesser of the plan or IRS limit.[9]
- Company contributions are tax deductible up to certain limits[10]; pre-tax contributions and earnings are tax deferred.

One thing to keep in mind: A high level of participation is usually necessary in order for owners or key employees to defer the maximum contributions permitted by the IRS. Company matching contributions and/or profit sharing contributions are optional.

CASE STUDY

In this example, a 401(k) plan can help the owners save a total of $42,175 a year and contribute to their employees' retirement accounts for a net contribution cost of only $11,655 after annual tax savings.

- 20 full-time eligible employees
- $1,110,000 in payroll
- 1.5% match (25% of employee contributions up to 6%)
- Employee group deferring 6% of pay
- Owners defer 8% (up to the $23,000 limit)

For illustrative purposes only.

[9] As indexed by the IRS for the 2024 calendar year.

[10] Salary deferrals and optional profit sharing and matching contributions cannot exceed the lesser of 100% of pay or $69,000 per participant. Because the 401(k) plan has certain administrative requirements and IRS compliance testing and reporting, the Principal Financial Group suggests full-service recordkeeping for this retirement plan. For a 401(k) proposal to suit your needs, please ask your trusted financial professional to complete a Proposal Request.

Name	Income	Employee salary deferral	Employer match	Total contribution
Owner group				
Owner 1	$350,000	$23,000	$5,175	$28,175
Owner 2	$155,000	$12,400	$2,325	$14,725
Owners' total	**$505,000**	**$35,400**	**$7,500**	**$42,900**
Employee group average				
Employees 1-5	$50,000	$3,000	$750	$3,750
Employees 6-20	$25,000	$1,500	$375	$1,875
Employees' total	**$625,000**	**$37,500**	**$9,375**	**$46,875**
Grand total	**$1,130,000**	**$72,900**	**$16,875**	**$89,775**

- Owners receive 47% of total contributions.
- Plan contributions as a percentage of payroll is 8%.
- Vesting schedule may reduce costs of employer contributions.

THE POTENTIAL BENEFIT...

The estimated account balance for owner 1 of a $27,450 annual plan contribution assuming a 6% annual return over 20 years = **$887,389***

Total annual tax-deferred contributions ($27,450 x 20 years) = **- $549,000**

... of having a 401(k) plan = $338,389

For illustrative purposes only.

*Assumes $0 beginning balance, an employer match of 25% up to 6% of compensation, 6% investment return, salary increase of 3% annually, potential benefit accrued from age 45 to retirement age of 65, 10% replacement from Social Security based on salary[11], and inflation is 2%. 2024 maximum 401(k) plan contribution limits apply[2,9,10]. Amounts do not reflect the impact of taxes on pre-tax distributions. Individual taxpayer circumstances may vary.

[11] Social Security maximum monthly benefit limited to $3,506. Assumes participant born between 1943-54 and compensation reflects maximum-taxable earnings from age 22 through retirement at age 66 and 0 months.

Safe harbor 401(k) plan[12]

The safe harbor 401(k) plan allows your company to enjoy the benefits of a traditional 401(k) plan with fewer plan compliance tests.[13] Better yet, it may allow higher employee contribution levels than a traditional 401(k) plan.

The plan's major advantages are:

- Highly compensated employees and owners can maximize elective deferrals.
- No complicated ADP or ACP testing (other non-discrimination testing may still apply) testing.
- Additional profit sharing contributions are allowed and may be subject to a vesting schedule.
- Employees may make pre-tax salary deferrals of up to $23,000.[14]
- Individuals age 50 and older are allowed to make a $7,500 catch-up contribution if meeting the lesser of the plan or IRS limit.[14]

Two contribution choices:[15]

1) Match 100% of the first 3% of compensation, plus 50% of the next 2% of compensation.[16]

2) Contribute 3% of compensation to all eligible employees (satisfying the required minimum top-heavy contribution).[16]

This plan allows participants to maximize their salary deferral contributions, provided certain requirements are met.

CASE STUDY

In this example, a safe harbor 401(k) plan can help the owner save a total of $32,400 a year and contribute to their employees' retirement accounts for a net contribution cost of only $12,054 after annual tax savings.

For illustrative purposes only.

- 1 owner
- 5 full-time eligible employees
- $594,000 in payroll
- 3% required contribution
- Employee group deferring 3%

[12] Other safe harbor options are available.
[13] Eligible employees must be notified prior to plan start date.
[14] As indexed by the IRS for the 2024 calendar year. For purposes of maximum contributions, compensation is limited to $345,000, as indexed, per participant per year.
[15] Deferrals and required employer contribution and optional additional profit sharing contributions cannot exceed the lesser of 100% of pay or $69,000 per participant. Enhanced matching options also available.
[16] Employees are 100% vested in required employer contribution.

Name	Income[17]	Employee salary deferral	3% employer contribution	Total contribution
Owner group				
Owner	$350,000	$23,000	$10,350	$33,350
Owners' total	**$350,000**	**$23,000**	**$10,350**	**$33,350**
Employee group average				
Employee 1	$21,000	$630	$630	$1,260
Employee 2	$28,000	$840	$840	$1,680
Employee 3	$75,000	$2,250	$2,250	$4,500
Employee 4	$35,000	$1,050	$1,050	$2,100
Employee 5	$85,000	$2,550	$2,550	$5,100
Employees' total	**$244,000**	**$7,320**	**$7,320**	**$14,640**
Grand total	**$594,000**	**$30,320**	**$17,670**	**$47,990**

- Owners able to maximize their retirement savings by increased salary deferral amounts.
- Great fit for owners who expect low 401(k) participation.

THE POTENTIAL BENEFIT...

The estimated account balance for the owner of a $32,400 annual plan contribution assuming a 6% annual return over 20 years = **$1,047,760***

Total annual tax-deferred contributions ($32,400 x 20 years) = **- $648,000**

... of having a safe harbor 401(k) plan = $454,760

For illustrative purposes only.

*Assumes $0 beginning balance, a 3% employer contribution, 6% investment return, salary increase of 3% annually, potential benefit accrued from age 45 to retirement age of 65, 10% replacement from Social Security based on salary[11], and inflation is 2%. 2024 maximum 401(k) plan contribution limits apply[2,9,10]. Amounts do not reflect the impact of taxes on pre-tax distributions. Individual taxpayer circumstances may vary.

[17] As indexed for the 2024 calendar year. For purposes of maximum contributions, compensation is limited to $345,000 per participant per year.

SIMPLE IRA

The Savings Incentive Match Plan for Employees (SIMPLE IRA) is an economical way to sponsor a retirement plan. Employees may elect to defer part of their salaries into the plan along with the contributions you make.

Its low cost and easy administration make it appealing to many small organization owners with 100 or fewer employees who do not maintain another retirement plan.

The plan's major advantages are:

- No plan compliance testing or annual Form 5500 filing required.
- No employer administration fee.
- Contribution maximum:

> *Employee salary deferral is 100% of compensation up to $16,000.*[18]
>
> *Individuals age 50 and older are allowed to make a $3,500 catch-up contribution if meeting the IRS pre-tax deferral limit.*[18]

- Employer contributions are federally tax deductible, and contributions and earnings are tax deferred.

Under the SIMPLE IRA, employers must make contributions in one of two ways. Employees are 100% vested in all contributions.

Two SIMPLE contribution choices:

1) 3% match — You match your employees' contributions dollar for dollar, up to 3% of each eligible employee's gross salary. (In two years of any five-year period, you can elect to reduce the match to as low as 1% of salary.)

2) 2% contribution — You contribute 2% of all eligible employees' gross salaries whether or not they elect to participate in the plan.

CASE STUDY

In this example, a SIMPLE IRA can help the owners save a total of $58,830 a year and contribute to the employees' retirement accounts for a net contribution cost of only $12,411 after taxes.

- 6 full-time eligible employees
- 2 owners and 1 spouse
- 3% match

For illustrative purposes only.

[18] As indexed by the IRS for the 2024 calendar year.

Name	Income[19]	Employee salary deferral	Employer match	Total contribution
Owner group				
Owner 1	$375,000	$16,000	$10,350	$26,350
Owner 2	$65,000	$16,000	$1,950	$17,950
Owner spouse	$16,000	$16,000	$480	$16,480
Owners' total	**$456,000**	**$48,000**	**$12,780**	**$60,780**
Employee group average				
Employees 1-6	$30,000	$900	$900	$1,800
Employees' total	**$180,000**	**$5,400**	**$5,400**	**$10,800**
Grand total	**$636,000**	**$53,400**	**$18,180**	**$71,580**

- Simple to administer, low-cost retirement plan but has limited flexibility.
- Loans, vesting schedule and additional employer contributions are not allowed.

THE POTENTIAL BENEFIT...

The estimated account balance for owner 1 of a $25,400 annual plan contribution assuming a 6% annual return over 20 years = **$823,240***

Total annual tax-deferred contributions ($25,400 x 20 years) = **- $508,000**

... of having a SIMPLE IRA plan = $315,240

For illustrative purposes only.

*Assumes $0 beginning balance, an employer match of 100% up to 3%, 6% investment return, salary increase of 3% annually, potential benefit accrued from age 45 to retirement age of 65, 10% replacement from Social Security based on salary[11], and inflation is 2%. 2024 maximum SIMPLE IRA contribution limits apply[2,18]. Amounts do not reflect the impact of taxes on pre-tax distributions. Individual taxpayer circumstances may vary.

[19] As indexed for the 2024 calendar year. For purposes of maximum contributions, compensation is limited to $345,000 per participant per year.

Profit-sharing plans

A profit-sharing plan lets your company make discretionary contributions for your employees. The main features of a profit-sharing plan are:

- Helping attract and keep quality employees.
- Providing plan design flexibility.
- Allowing varying levels of contributions each year.
- Helping to motivate employees.
- Compatibility with a 401(k) or safe harbor 401(k) plan.

Allocation formulas play an important part in designing a profit sharing plan. The IRS requires a specific, predetermined formula for allocating profits to employees. Here are the three most common formulas to choose from:

1) Pay-to-pay — Based on participant's pay. Each participant receives an allocation based on the ratio of their pay to the total payroll of all plan participants.

2) Integrated — Allows you to give a larger percentage of the contribution to higher-paid participants for wages above a pre-selected amount. This method integrates the plan with a participant's Social Security benefit.

3) Comparability — Contribution is tailored to a specific group. Attempts to maximize the contributions given to a select group of your most-valued plan participants while giving the minimum contributions necessary to pass required testing to the remaining participants. Identifying factors for your select group may include age, title, or ownership.*

The chart on the next page shows an example of how the same plan contribution amount can be allocated given the various allocation methods.

* May be an additional cost for testing.

Name	Age	Income[20]	**Pay-to-pay contribution** Based on a participant's income ratio	**Integrated contribution** Integrates a participant's social security benefit	**Comparability contribution** Tailored to a specific group
Owner group **Highly compensated**					
Owner	65	$350,000	$47,562	$51,727	$69,000
Owner's total		**$350,000**	**$47,562**	**$51,727**	**$69,000**
% allocation			57%	63%	84%
Employee group **Non highly compensated**					
Employee 1	30	$21,000	$2,895	$2,537	$1,050
Employee 2	35	$28,000	$3,860	$3,382	$1,400
Employee 3	50	$75,000	$10,340	$9,059	$3,750
Employee 4	40	$35,000	$4,825	$4,228	$1,750
Employee 5	57	$85,000	$11,718	$10,267	$4,250
Employees' total		**$244,000**	**$33,638**	**$29,473**	**$12,200**
Grand total		**$594,000**	**$81,200**	**$81,200**	**$81,200**

For illustrative purposes only.

› Changes in employee group can change allocation.

[20] As indexed for the 2024 calendar year. For purposes of maximum contributions, compensation is limited to $345,000 per participant per year.

SEP IRA

The Simplified Employee Pension (SEP IRA) is a great program for small organizations and the self-employed. It has contribution flexibility and minimizes administrative expenses. The plan's major advantages are:

- You decide the percentage you wish to contribute each year, up to 25% of compensation or $69,000, whichever is less.[21]
- No requirements on the frequency or amount of contributions.
- Easy to establish.
- No employer administration fee.
- No annual Form 5500 required.
- No IRS reporting requirements, and paperwork is minimal.

This plan enables you to make discretionary, federally tax-deductible contributions for yourself and your eligible employees.

You are only required to contribute for employees who:

- Are age 21 or older.
- Have worked for your organization for three of the past five years.

You may designate less restrictive requirements. Implementing a SEP requires an IRA to be established for each eligible employee. You make contributions directly to your employees' IRAs.

CASE STUDY

In this example, a SEP IRA can help the owners save $79,000 a year for a net contribution cost of only $55,300 after taxes.

- 2 owners, 1 owner's spouse, and 1 employee
- Goal: to maximize contributions to owner

For illustrative purposes only.

[21] As indexed by the IRS for the 2024 calendar year.

Name	Date of hire	Salary	Employer 20% contribution
Owner group			
Owner 1	1998	$330,000	$66,000
Owner 2	1998	$65,000	$13,000
Employees			
Owner spouse	2021	$15,000	Not eligible
Employee 1	2021	$30,000	Not eligible
Total		**$440,000**	**$79,000**

- Owner 1 receives 84% of total contribution.
- Turnover may allow employee exclusions.
- Employees are 100% vested in employer contributions.

THE POTENTIAL BENEFIT...

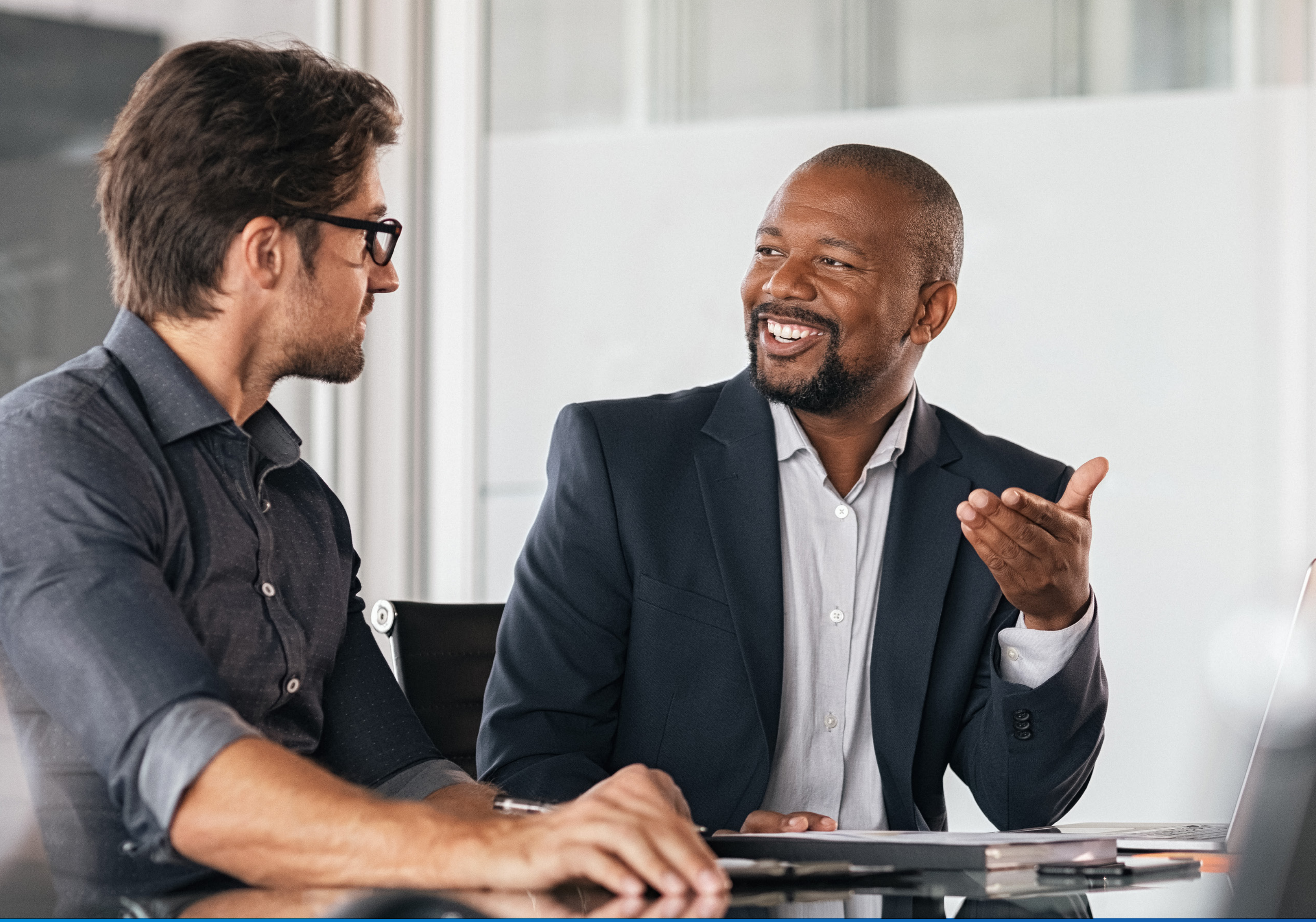
The estimated account balance of a $66,000 annual plan contribution for the owner assuming a 6% annual return over 20 years = **$2,138,286***

Total annual tax-deductible contributions ($66,000 x 20 years) = **- $1,320,000**

... of having a SEP IRA plan = $1,045,111

For illustrative purposes only.

*Assumes $0 beginning balance, an employer match of 100% up to 3%, 6% investment return, salary increase of 3% annually, potential benefit accrued from age 45 to retirement age of 65, 10% replacement from Social Security based on salary[11], and inflation is 2%. 2024 maximum SEP IRA contribution limits apply[2,21]. Amounts do not reflect the impact of taxes on pre-tax distributions. Individual taxpayer circumstances may vary.



What will you choose?

Every organization looks a little different and needs different things. By knowing and reviewing all options, you can feel more confident in determining the best approach to meeting the needs of your company. And we're here to support you no matter the approach you choose.

Contact your Principal® representative for more info on the options available.

Intended for plan sponsor and financial professional use.

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