

Innovative Retirement Plans  
for Small Businesses



# Pension Guide

2024 EDITION



**HERBERT FINANCIAL GROUP**  
**EMPOWERING BUSINESS OWNERS**

Retirement Services

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DESIGN

ADMINISTRATION

FUNDING

## Retirement Plan Types

Herbert Financial Group Services can provide assistance to your clients regarding the following retirement plans:

### Defined Benefit Plans

#### Defined Benefit Plan

A Defined Benefit Plan is a retirement plan that provides guaranteed retirement benefits to the owners and employees of a company, provided annual premium contributions have been funded.

The plan may be funded with, but not limited to, life insurance and annuity contracts.

#### Fully Insured Defined Benefit Plan

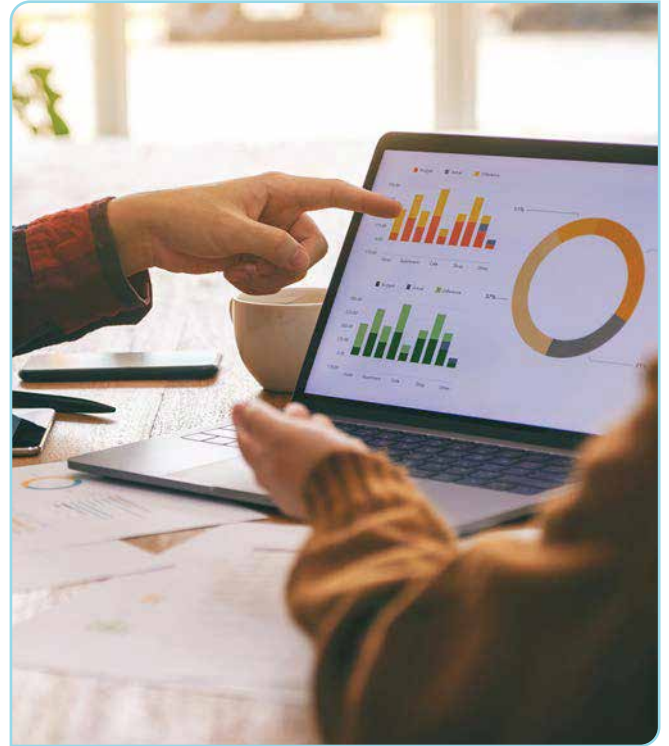
A 412(e)(3) Fully Insured Defined Benefit Plan is a retirement plan that provides guaranteed retirement benefits to the owners and employees of a company, provided annual premium contributions have been funded.

The plan is funded solely with life insurance and annuities, or annuity-only contracts, offering minimum guaranteed interest rates.

#### Cash Balance Plan

A Cash Balance Plan is a defined benefit plan that provides benefits to participants in the form of hypothetical account balances normally stated as a dollar amount or a percentage of compensation.

Each year, eligible participants receive their benefit in the form of a pay credit and an interest credit that is added to their hypothetical account. However, the plan is still funded like a traditional defined benefit plan with funds going into a pooled account.



### Defined Contribution Plans

#### Profit Sharing Plan

A Profit Sharing Plan is a defined contribution plan in which the employer makes discretionary contributions. A key advantage is flexibility in determining the annual contribution.

The maximum annual employer deduction for contribution is 25% of eligible compensation. There is also a maximum individual contribution limit. The individual limits are adjusted annually for cost-of-living increases.

#### 401(k) Profit Sharing Plan

A 401(k) Profit Sharing Plan allows employees to defer a portion of their income (tax deferred) to the plan while also allowing the employer to fund a matching and/or discretionary contribution.

# Retirement Plan Comparisons

## Retirement Plan Limits | 2024

The Internal Revenue Service has announced cost-of-living adjustments to the retirement plan limits. The new limits are effective January 1, 2024.

TYPE OF LIMITATION	2024	2023
Annual Compensation Limit	\$345,000	\$330,000
Defined Benefit Annual Limit	\$275,000	\$265,000
Defined Contribution Annual Limit	\$69,000	\$66,000
401(k), 403(b), 457(b) Deferral Limit	\$23,000	\$22,500
401(k), 403(b), 457(b) Catch-Up Limit (age 50)	\$7,500	\$7,500
SIMPLE Contribution Limit	\$16,000	\$15,500
SIMPLE Catch-up Limit (age 50)	\$3,500	\$3,500
Highly Compensated Employee (compensation in the prior year exceeding)	\$155,000	\$150,000
Officer as Key Employee	\$220,000	\$215,000
Social Security Taxable Wage Base	\$168,600	\$160,200
SEP Minimum Compensation	\$750	\$750

Source: IRS Notice 2023-75; [www.ssa.gov](http://www.ssa.gov), Contribution and Benefit Base

HFG-2408 (11/23)

# Retirement Plan Contribution Limits by Plan Type | 2024

Owner Age	30	35	40	45	50	55	60
<b>Salary</b>	\$345,000	\$345,000	\$345,000	\$345,000	\$345,000	\$345,000	\$345,000
<b>RETIREMENT PLAN OPTIONS</b>							
<b>SIMPLE Salary Deferrals</b>	\$16,000	\$16,000	\$16,000	\$16,000	\$19,500	\$19,500	\$19,500
<b>401(k) Salary Deferrals</b>	\$23,000	\$23,000	\$23,000	\$23,000	\$30,500	\$30,500	\$30,500
<b>SEP</b>	\$69,000	\$69,000	\$69,000	\$69,000	\$69,000	\$69,000	\$69,000
<b>401(k) Profit Sharing Plan</b>	\$69,000	\$69,000	\$69,000	\$69,000	\$76,500	\$76,500	\$76,500
<b>Defined Benefit Pension Plan*</b>	\$88,589	\$112,598	\$143,107	\$181,889	\$231,274	\$294,321	\$313,672**
<b>Cash Balance</b>	\$72,099	\$92,307	\$118,232	\$151,506	\$194,233	\$249,118	\$319,631**
<b>412(e)(3) Defined Benefit Plan*</b>	\$95,185	\$121,439	\$159,621	\$220,209	\$338,068	\$440,382	\$385,976**

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\*Assumes retirement age of 62

\*\*Assumes retirement age of 65

Contributions are sample illustrations, and actual contributions may vary.

Contributions are calculated based upon individual census data.

Values as of January 1, 2024.

# Retirement Plan Comparison Chart | 2024

Plan Type:	SEP IRA	Profit Sharing	401(k)
Lafayette Life	Yes	Yes	Yes
Key Features	Easy administration, Life insurance is not permitted; contributions discretionary; contributions may be deductible by employer. Employer must include eligible employees.	Tax-deferred investment; flexibility in plan design; contributions discretionary; contributions may be deductible by employer.	Tax-deferred investment; flexibility in plan design; contributions may be deductible by employer; salary deferrals reduce employee's taxable income. Defined benefit plan sponsor can also adopt.
Contributors	Employer only	Employer only	Employee and optional Employer
Contribution Flexibility	Yes	Yes	Yes
Maximum Eligibility Requirements	Age 21; employed by company in 3 of last 5 years; received at least \$750 in compensation	Age 21 with two years of service	Age 21 and one year of service
Contribution Limits	<b>Employer:</b> 25% of each employee's compensation. <b>Individual:</b> The lesser of 100% of compensation or \$69,000.	<b>Employer:</b> 25% of each employee's compensation. <b>Individual:</b> The lesser of 100% of compensation or \$69,000.	<b>Employer:</b> 25% of each employee's compensation. <b>Individual:</b> The lesser of 100% of compensation or \$69,000 (including salary deferrals)
Contribution Due Date	By employer's tax filing date, including extensions.	By employer's tax filing date, including extensions.	Employee deferrals must be deposited no later than the 7th business day following the date the employee would have received the contributions (payday). Employer contribution by the tax filing date, including extensions.
Maximum Annual Salary Deferral	Not applicable	Not applicable	\$23,000
Catch-up Contribution for Participants age 50	Not applicable	Not applicable	\$7,500
Vesting in Employer Contribution (Top Heavy)	100% immediate	May be graded up to six years	May be graded up to six years
When Established	Anytime prior to tax filing deadline, including extensions	Prior to fiscal year end	Prior to fiscal year end
Form 5500 Reporting	No	Yes	Yes

1. Compensation is limited to \$345,000 per year. The self-employee contribution limit is based on net income (gross income less the contribution and one half of the self-employment tax)

2. 100% Immediate vesting is mandatory.

3. SIMPLE IRA: For any two years out of five, employer may have a lower match, but not less than 1.0%

Safe Harbor 401(k)	SIMPLE 401(k) or SIMPLE IRA	Defined Benefit, 412(e)(3) Fully Insured Plan or Cash Balance Plan
Yes	No	Yes
Tax-deferred investment; Highly compensated employees may defer the maximum amount; Contributions may be deductible by employer; Salary deferrals reduce employee's taxable income. Defined benefit plan sponsor can also adopt.	Tax-deferred investment; contributions may be deductible by employer; salary deferrals reduce employee's taxable income. A SIMPLE 401(k) or SIMPLE IRA must be the exclusive plan. Employee limit: 100 or fewer.	Contributions may be higher than other types of retirement plans; Generally favors older, highly compensated employees.
Employee and Employer	Employee and Employer	Employer only
Mandatory Safe Harbor contribution: Employer contribution is 3% of compensation; OR, match is 100% on the first 3% of deferrals, plus 50% on deferrals between 3% and 5% of compensation. Additional discretionary profit sharing contribution allowed.	The employer must make either a matching or non-elective contribution.	No
Age 21 and one year of service	401(k): Age 21 and one year of service IRA: Employees earning \$5,000 in current year and any two prior years	Age 21 with two years of service
<b>Employer:</b> 25% of eligible employee compensation. <b>Individual:</b> The lesser of 100% of compensation or \$69,000 (including salary deferrals).	<b>Employer:</b> 100% match on 3% of compensation ; OR, a 2% employer contribution to all eligible employees. No other contribution is permitted.	Based on benefit formula. \$275,000 maximum annual benefit.
Deferrals must be deposited no later than the 7th business day following the date the employee would have received contributions (payday). Employer contribution by the tax filing date, including extensions.	Salary deferrals to the SIMPLE IRA must be made within 30 days after the end of the month in which the amounts would have been payable to the employee. Employer contribution by the tax filing date, including extensions.	<b>Defined Benefit:</b> By employer's tax filing date, including extensions, but no later than 8½ months after plan year end. <b>412(e)(3) Fully Insured:</b> Beginning of plan year.
\$23,000	\$16,000	Not applicable
\$7,500	\$3,500	Not applicable
100% vesting on safe harbor contributions. Profit Sharing contribution may be graded up to six years	100% immediate	May be graded up to six <sup>4</sup> years
Prior to October 1	Prior to October 1	Prior to fiscal year end
Yes	Yes: SIMPLE 401(k)      No: SIMPLE IRA	Yes

4 Cash balance plans are required to vest 100% after three years.

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# Tax Credits

## Tax Credit Available For New Plans

For qualified plans established after December 31, 2002, a tax credit may be available to employers meeting the following criteria:

- › The employer has fewer than 100 employees;
- › \$5,000 or more paid in compensation in the prior year;
- › At least one non-highly-compensated employee is participating; and
- › The sponsoring employer has not had a qualified plan within the last three years immediately before the first year to which the credit applies.

For eligible employers, the business tax credit is equal to: 100% of the employer's expenses to set up and administer the plan and to educate employees

about the plan, for the first three years of the plan, up to a maximum credit of \$500 to \$5,000 per plan year, depending on the size of the employer.

Note: The 50% of expenses offset by the credit are not deductible by the employer. However, expenses in excess of the credit are still deductible business expenses.

- › To take the credit, get IRS form 8881, Credit for Small Employer Pension Plan Start-up Costs, and the instructions.
- › See IRS Publication 560 or check with your tax advisor for more details.



## Life Insurance in a Qualified Plan

### Why Fund a Qualified Retirement Plan with Life Insurance?

- › **Self-Completing Benefit:** The death benefit helps to meet the plan's intentions in the event of death prior to retirement.
- › **Buy-Sell Agreement:** Owners may use the life insurance held in the qualified plan to fund a buy-sell agreement.
- › **Tax-Deductible Premiums:** The premiums are generally tax-deductible creating a cost-effective method of purchasing life insurance.
- › **Income Tax Advantage at Death:** The death benefit in excess of the cash value paid to the policy beneficiary is tax free.
- › **Pre-Retirement Death Benefit:** Life insurance within a qualified plan can provide additional protection to the participant's family if the participant dies prior to retirement.
- › **Easily Understood Benefit:** Life insurance provides a tangible benefit, including those who may be too young to visualize retirement or those with minimal accrued benefits.
- › **Transfer of Policy Ownership:** The life insurance may be transferred out of the qualified plan at retirement or termination of employment to continue coverage.
- › **Reduce Personal Expenses:** Purchasing life coverage with pre-tax dollars versus post-tax dollars.
- › **Reportable Income Creates Cost Basis:** The current economic benefit of a life insurance policy (PS-58 Cost) is taxed annually to the insured. This creates a cost basis that may later be used to offset income at the time of distribution from the qualified plan.

#### Tax savings is a primary reason to put life insurance in a qualified plan.

Let's look at the benefit of leveraging pre-tax dollars in funding life insurance in retirement plans.

Age 45 | \$402,054 Face Amount | \$11,000 Premium

<b>Outside a Plan:</b>	\$15,714 Earnings	<b>Inside a Plan:</b>	PS 58 = \$615 x .3 = \$184.50
	4,714 Tax (30%)		\$265 Earnings
	\$11,000 Premium		\$80 Tax (30%)