Retirement plan overview

Reference guide

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Different IRAs, different benefits

An individual may choose to invest in one or both types of IRAs: **Traditional** and **Roth.**

Both a Traditional IRA and a Roth IRA are convenient, tax-advantaged ways to invest for retirement. Take a moment to evaluate the features and benefits of each before you invest. Then, work with your tax and financial professional to consider which IRA works best for your situation and retirement goals.

	Traditional IRA	Roth IRA
Description	Traditional IRAs offer the advantage of tax-deductible contributions that reduce the amount of current federal income tax you pay. In addition to upfront tax savings, the money in a Traditional IRA grows tax-deferred.	A Roth IRA is a retirement account in which you make contributions with after-tax money, but future earnings and capital gains accumulate tax-free. Unlike a Traditional IRA, there is no income tax on qualified Roth IRA withdrawals.
Taxes **NOTE:** It may be possible to convert pre-tax, employer-sponsored retirement plan accounts to a Roth IRA, depending on your retirement plan's policies. Please consult your employer (plan sponsor) to determine if this option is available, and your financial, legal and tax professionals whether it would be in your best interest based on your specific situation, financial goals and objectives.	Tax-deductible contributions: Your contribution to a Traditional IRA may be tax-deductible, depending on your adjusted gross income. See eligibility details on page 2. A tax deduction will reduce the amount of tax you pay for the year that you make the contribution. Your investment in a Traditional IRA is not taxed as long as it remains within the account, maximizing the potential compounded return.	No upfront tax deduction: Your contribution to a Roth IRA is not tax-deductible so there is no reduction of taxes in the year you make the contribution. See eligibility details on page 3.
Distributions **NOTE:** Restrictions may apply, please contact your local IRS office or visit their website at www.IRS.gov for more information.	Distributions taxed as ordinary income: Distributions from your Traditional IRA are generally taxable at your regular income tax rate.	Tax-free distributions: Distributions from your Roth IRA are generally tax-free if your account has been open for five years or more and you are 59½ or older (or another exception applies).
Additional tax on distributions before age 59½	An additional tax of 10% may apply to distributions made before you are 59½, unless an exception applies.	An additional tax of 10% may apply to distributions of earnings made before you are 59½, unless an exception applies.
Required minimum distributions	As of January 2023, required minimum distributions begin at age 73 in general.	No required minimum distributions (RMDs), as long as the participant is alive.

American workers taking a more active role in their finances and retirement.

66% indicated the current economic environment motivates them to take a more active role in managing their finances, and

60% have increased their retirement contributions due to the economy. A financial professional can help you determine which IRA aligns with your retirement goals and financial situation.

Source: Voice of the American Worker survey, 2024.

For additional information, discuss with a tax or financial professional or refer to the appropriate IRS Publication.

	Traditional IRA	Rollover IRA
May be appropriate for	• Wage earners who want to save independently for retirement • Joint return filers with one wage earning spouse • Clients who may not qualify to make a Roth IRA contribution but would like to convert to a Roth IRA (NOTE: pre-tax IRA assets are taxable on conversion)	• Individuals who are about to receive a retirement plan distribution • Employer-sponsored retirement plan distributions received by a surviving spouse[1] • Non-spouse beneficiaries of employer-sponsored plans who wish to establish an "inherited" IRA[1]
Features	• Earnings accumulate tax deferred • Contributions may be tax deductible • A direct rollover from a 401(k) or other retirement plan enables the participant to defer federal income tax and avoid an additional 10% federal tax on early withdrawals taken prior to age 59½ • Direct rollovers and 60-day rollovers (see Rollover IRA Features to the right) may be made to a Traditional IRA by investors who do not want to establish a separate Rollover IRA • For 2020 and later, there is no age limit on making regular contributions to traditional IRAs	• Earnings accumulate tax deferred • A direct rollover from a 401(k) or other retirement plan enables the participant to defer federal income tax and avoid additional 10% federal tax on withdrawals taken prior to age 59½ • Investors may roll over distributions from retirement plans, such as 401(k), 403(b) and government 457 plans, directly or within 60 days of receipt[2] • Easy to establish and maintain
Eligibility requirements	• Must have received taxable compensation during the year or file a joint return with a spouse who received taxable compensation[3] • No income limits to contribute – If account owner or spouse is eligible to participate in an employer-sponsored retirement plan, IRA deductibility may depend on participant modified Adjusted Gross Income (AGI)[3]	• No income requirement or limit • No age limit
Contribution limits	• Annual contributions of up to $7,000 for tax year 2025 and $7,000 for 2024 or 100% of compensation, whichever is less[4] • Spouses who file a joint tax return may each contribute up to $7,000 for 2025 and $7,000 for 2024[4] • Additional annual catch-up contribution of $1,000 for investors age 50 and older in 2025 and 2024	• Rollover contributions of up to the eligible rollover distribution • If Traditional IRA contributions are made to the Rollover IRA, the Traditional IRA plan contribution limits apply
Deadline to set up/contribute	• To receive contribution credit for the current year, the contribution must be made by the tax-filing deadline, not including extensions (usually April 15 of the following year)	• If the distribution is received by the participant (or surviving spouse beneficiary), it must be rolled over within 60 days of receipt to defer federal income tax and avoid the additional 10% federal tax on withdrawals taken prior to age 59½ • If failure to meet this requirement is due to an event beyond the reasonable control of the investor, contact a tax or financial professional for assistance
Distributions	• Distributions may be subject to additional 10% federal tax and applicable state tax if taken prior to age 59½ unless an exception applies[5] • As of January 2023, required minimum distributions begin at age 73	• Same as Traditional IRA

	Roth IRA	SEP IRA

May be appropriate for

Roth IRA

- Wage earners who want to save independently for retirement
- Joint return filers with one wage earning spouse
- Individuals with Traditional IRAs (as well as SEP or SIMPLE IRAs) who do not expect to take withdrawals for at least five years
- Clients interested in legacy planning

SEP IRA

- Self-employed individuals or small employers with variable earnings seeking an employer-funded option with the flexibility to change contributions annually

Features

Roth IRA

- Tax-free growth and distribution of earnings (provided certain conditions are met)
- IRA assets can be converted to a Roth IRA, regardless of income (NOTE: pre-tax IRA assets are taxable on conversion)
- Can be used in conjunction with any retirement plan
- Easy to establish and maintain
- No minimum distribution requirements during the participant's lifetime

SEP IRA

- Earnings accumulate tax deferred
- Nondiscrimination testing not required and contributions, if made, must be allocated to a SEP-IRA account for each eligible employee
- If permitted by the plan, employees may have contributions directed to Roth IRA
- Low administrative cost
- Minimal IRS filings and paperwork
- Employer has flexibility to vary the contribution rate annually
- Employer is not committed to contributions for any future years
- Employees are immediately 100% vested in contributions made to their account
- Easy for employers to establish and maintain

Eligibility requirements and contribution limits

Roth IRA

Roth IRA eligibility is determined by your modified Adjusted Gross Income (AGI), see table below.

IF you have taxable compensation and your filing status is...	AND your modified AGI is...	THEN, for 2025 you can contribute...
married filing jointly or qualifying widow(er)	less than $236,000	up to $7,000 ($8,000 if you are age 50 or older)
	at least $236,000 but less than $246,000	the amount you can contribute is reduced
	$246,000 or more	you can't contribute to a Roth IRA
married filing separately (and you lived with your spouse at any time during the year)	more than zero (-0-) but less than $10,000	the amount you can contribute is reduced
	$10,000 or more	you can't contribute to a Roth IRA
single, head of household, or married filing separately (and you didn't live with your spouse at any time during the year)	less than $150,000	up to $7,000 ($8,000 if you are age 50 or older)
	at least $150,000 but less than $165,000	the amount you can contribute is reduced
	$165,000 or more	you can't contribute to a Roth IRA

SEP IRA

Must include all employees who:

- Have reached 21 years of age
- Have performed service in three of the preceding five years
- Have earned at least $750 in 2024 and $750 in 2025

May exclude:

- Union employees subject to collective bargaining
- Certain nonresident aliens
- Employer contribution up to 25% of the employee's annual compensation but not more than $69,000 for tax year 2024 and $70,000 for 2025[6]

Deadline to set up/contribute

Roth IRA

- To receive contribution credit for the current year, the contribution must be made by the tax-filing deadline, not including extensions (usually April 15 of the following year)

SEP IRA

- Employer's tax-filing deadline plus extensions

Distributions

Roth IRA

- Distributions may be taken at any time but earnings may be subject to additional 10% federal tax and applicable state tax if taken prior to age 59½ unless an exception applies[5]
- Distributions may only be considered tax-free[7] if they are made after the five-year period beginning with the first taxable year for which a contribution was made to a Roth IRA and the Roth IRA owner satisfies one of the following conditions:
  – Attains age 59½
  – Becomes permanently disabled
  – Makes a first-time home purchase ($10,000 lifetime cap)
  – Dies

SEP IRA

- Distributions may be taken at any time but may be subject to an additional 10% federal tax if taken prior to age 59½ unless an exception applies[5]
- As of January 2023, required minimum distributions begin at age 73

	SIMPLE IRA	403(b)
May be appropriate for	• Employers with 100 or fewer employees seeking an alternative to a 401(k) plan with fewer administrative requirements • Self-employed individuals with modest incomes • Employers who have not sponsored a different retirement plan during the calendar year	• Employees of public schools, certain tax-exempt organizations, universities, colleges, hospitals and churches
Features	• Pre-tax contributions may reduce employee's current taxable income • Earnings accumulate tax deferred • Nondiscrimination testing not required • Low administrative cost • Minimal IRS filings and paperwork • Employees are immediately 100% vested in contributions made to their account • Easy for employers to establish and maintain • If permitted by the plan, employees may have contributions directed to a Roth IRA	• Pre-tax contributions may reduce employee's current taxable income • Earnings accumulate tax deferred • Employer may make matching, discretionary or mandatory contributions • Flexibility in plan design • If permitted by the plan, employees may have contributions directed to a Roth 403(b)
Eligibility requirements	Must include all employees who: • Earn at least $5,000 during two preceding years and can reasonably expect to earn at least $5,000 in current year (employer may impose less restrictive eligibility requirements) May exclude: • Union employees subject to collective bargaining • Certain nonresident aliens	• Employees of a public school or a qualified tax-exempt organization such as a church, nonprofit hospital, or home health service agency [under Internal Revenue Code Section 501(c)(3)]
Contribution limits	• Annual deferral limit is $16,000 for 2024 and $16,500 for 2025 • Employer must match deferrals dollar for dollar up to 3% of compensation[6] (can be lowered to 1% in 2 out of 5 years), OR employer can make a 2% (of compensation) contribution for each eligible employee • Effective for taxable years beginning after December 31, 2023, some employers who sponsor SIMPLE plans may be able to take advantage of new contribution rules. An employer should seek advice on how to affirmatively elect these other options for their plan and determine if they are eligible for the increased limits. • Additional annual catch-up contribution of $3,500 in 2024 and $3,500 in 2025 for investors age 50 and older	• Annual deferral limit is $23,000 for 2024 and $23,500 for 2025. However, this general limit is reduced by the amount of elective deferrals an employee makes to certain other retirement plans • Additional catch-up contribution of $7,500 for 2024 and $7,500 in 2025 for investors age 50 and older • Participants who have been with their employer for at least 15 years may be able to defer up to $3,000 more ($15,000 lifetime cap) • Total contributions per participant cannot exceed $69,000 ($76,500 for those age 50 and older) for tax year 2024 and $70,000 ($79,000 for those age 50 and older) for 2025
Deadline to set up/contribute	• New plans must be established between January 1 and October 1[8] • 60-day notice must be given to all eligible employees • Employer contributions must be made by employer's tax-filing deadline plus extensions	• Plan must be adopted by employer's year-end • Salary deferrals made only on a calendar-year basis • Employer contributions must be made by employer's tax-filing deadline, plus extensions
Distributions	• Distributions may be taken at any time but may be subject to additional 10% federal tax and applicable state tax if taken prior to age 59½ unless an exception applies[5] • The premature distribution tax is increased to 25% if the distribution is taken within the first two years of participation • As of January 2023, required minimum distributions begin at age 73	• Distributions may be taken when the employee: – Separates from service – Attains age of 59½ – Is a participant in a plan that is terminated by the employer – Becomes permanently disabled – Dies • Additional distribution events, including financial hardship, may be available if permitted by the plan. • Distributions may be subject to an additional 10% federal tax if taken prior to age 59½ unless an exception applies[9] (See IRS.gov for more information on any applicable exceptions) • As of January 2023, required minimum distributions begin at age 73, or retirement, whichever is later[10]

	401(k)	Profit Sharing Plan
May be appropriate for	• Small to large companies who want to offer their employees a salary deferral plan	• Employers who want to offer a retirement savings plan with the flexibility to change contributions annually
Features	• Pre-tax contributions may reduce employee's current taxable income • Earnings accumulate tax deferred • Primarily employee funded • Employer may make matching or discretionary contributions • Vesting schedule available • Flexibility in plan design • May allow for plan loans	• Earnings accumulate tax deferred • Nondiscrimination testing required • Employer has flexibility to vary the contribution rate annually • Employer is not committed to contributions for any future years • Vesting schedule available
Eligibility requirements	Must include all employees who: • Are at least age 21 • Have completed one year of service (must have worked at least 1,000 hours) • Have completed two consecutive years of service with at least 500 hours per year (effective 2025; currently three years) May exclude: • Union employees subject to collective bargaining • Certain nonresident aliens	Must include all employees who: • Are at least age 21 • Have completed one year of service (at least 1,000 hours worked for the year), or two years of service, followed by immediate vesting May exclude: • Union employees subject to collective bargaining • Certain nonresident aliens
Contribution limits	• Annual deferral limit is $23,000 for 2024 and $23,500 for 2025. However, this general limit is reduced by the amount of elective deferrals an employee makes to certain other retirement plans • Additional catch-up contribution of $7,500 for 2024 and $7,500 in 2025 for investors age 50 and older • Employer contribution may not exceed 25% of eligible participant compensation[6] • Total contributions per participant cannot exceed the lesser of $69,000 in 2024 ($76,500 for those aged 50+) and $70,000 in 2025 ($77,500 for those aged 50+ or $81,250 for those aged 60-63)	• Up to 25% of eligible compensation[6] but not more than $69,000 per participant for tax year 2024 and $70,000 for 2025
Deadline to set up/contribute	• Plan must be adopted by employer's year-end • Salary deferrals made only on a calendar-year basis • Employer contributions must be made by employer's tax-filing deadline, plus extensions	• Plan must be adopted by employer's year-end • Contributions must be made by employer's tax-filing deadline, plus extensions
Distributions	• Distributions may be taken only when the employee: – Separates from service – Attains the plan's normal retirement age – Is eligible for a financial hardship distribution (if permitted by plan) – Is eligible for a qualified reservist distribution (if permitted by plan) – Is eligible for a distribution due to the birth or adoption of a child (if permitted by plan) – Is a participant in a plan that is terminated by the employer – Becomes permanently disabled – Dies • Distributions may be subject to an additional 10% federal tax if taken prior to age 59½ unless an exception applies[5] • As of January 2023, required minimum distributions begin at age 73, or retirement, whichever is later[10]	• Distributions may be taken only when the employee: – Separates from service – Attains age 59½ – Is eligible for a financial hardship distribution (if permitted by plan) – Is eligible for a qualified reservist distribution (if permitted by plan) – Is participant in a plan that is terminated by the employer – Becomes permanently disabled – Dies • Distributions may be subject to an additional 10% federal tax if taken prior to age 59½ unless an exception applies[5] • As of January 2023, required minimum distributions begin at age 73, or retirement, whichever is later.[10]

Solo(K)

May be appropriate for	• A business owner with no common-law employees, or that person and his or her spouse (Note: A common-law employee, or “statutory employee,” can be defined as an independent contractor that is treated as an employee for tax withholding purposes if they meet certain conditions) • Self-employed individuals
Features	• Business owners can contribute as employer and/or employee
Eligibility requirements	• Self-employed individuals or any business that doesn’t currently maintain a retirement plan • No common-law employees • No age or service restrictions

Contribution limits

Employer Contribution Limits	Employee Contribution Limits
Up to 25% of compensation not to exceed $69,000 for the 2024 tax year and $70,000 for the 2025 tax year	For the 2024 tax year, $23,000 ($30,500 for employees aged 50 or older). For the 2025 tax year, $23,500 ($31,000 for employees aged 50 or older, or $34,750 for employees aged 60 to 63 due to enhanced catch-up contributions)
Contributions are deductible and aren’t required every year	Can’t exceed 100% of compensation
Total contributions (both employer and employee) can’t exceed $69,000 for the 2024 tax year ($76,500 if aged 50 or older) and $70,000 for the 2025 tax year ($77,500 if aged 50 or older, or $81,250 if aged 60 to 63 due to enhanced catch-up contributions)	Can be either pre-tax or after-tax (Roth)

Deadline to set up/contribute	• Plan must be adopted by employer’s year-end
Distributions	• An employee can’t take withdrawals until a specified event such as reaching age 59½, death, separation from service, or another event as identified in the plan document • The plan may permit hardship withdrawals, which may be subject to a 10% penalty if the employee is under age 59½, unless an exception applies (e.g., qualified birth or adoption expenses, certain medical expenses) • Loans are offered in the Franklin Templeton Solo(k)

Tax Information

For 2024 tax year, if your taxable income is...

	Over ($)	But Not Over ($)	Marginal Rate (%)	Standard Deduction ($)
Single	0	11,600	10	14,600
	11,600	47,150	12	
	47,150	100,525	22	
	100,525	191,950	24	
	191,950	243,725	32	
	243,725	609,350	35	
	609,350	—	37	
Married filing jointly	0	23,200	10	29,200
	23,200	94,300	12	
	94,300	201,050	22	
	201,050	383,900	24	
	383,900	487,450	32	
	487,450	731,200	35	
	731,200	—	37	
Married filing separately	0	11,600	10	14,600
	11,600	47,150	12	
	47,150	100,525	22	
	100,525	191,950	24	
	191,950	243,725	32	
	243,725	609,350	35	
	609,350	—	37	
Head of household	0	16,550	10	21,900
	16,550	63,100	12	
	63,100	100,500	22	
	100,500	191,950	24	
	191,950	243,700	32	
	243,700	609,350	35	
	609,350	—	37	

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For 2025 tax year, if your taxable income is...

	Over ($)	But Not Over ($)	Marginal Rate (%)	Standard Deduction ($)
Single	0	11,925	10	15,000
	11,925	48,475	12	
	48,475	103,350	22	
	103,350	197,300	24	
	197,300	250,525	32	
	250,525	626,350	35	
	626,350	—	37	
Married filing jointly	0	23,850	10	30,000
	23,850	96,950	12	
	96,950	206,700	22	
	206,700	394,600	24	
	394,600	501,050	32	
	501,050	751,600	35	
	751,600	—	37	
Married filing separately	0	11,925	10	15,000
	11,925	48,475	12	
	48,475	103,350	22	
	103,350	197,300	24	
	197,300	250,525	32	
	250,525	375,800	35	
	375,800	—	37	
Head of household	0	17,000	10	22,500
	17,000	64,850	12	
	64,850	103,350	22	
	103,350	194,300	24	
	194,300	250,500	32	
	250,500	626,350	35	
	626,350	—	37	

Qualified plan contribution limits for 2024–2025 ($)

		2024	2025
401(k), 403(b)(7)	Elective contribution limit	23,000	23,500
	Catch-up contribution limit	7,500	7,500
Solo(k)	Contribution limit	69,000	70,000
	Catch-up contribution limit	7,500	7,500
SIMPLE IRA	Contribution limit	16,000	16,500
	Catch-up contribution limit	3,500	3,500
SEP IRA	Contribution limit lesser of	69,000	70,000
	25% of compensation/earned income[11] up to	345,000	350,000
	Minimum compensation to be considered eligible	750	750
Traditional IRA & Roth IRA[12]	Single filer contribution limit	7,000	7,000
	Catch-up contribution limit (age 50 and over)	1,000	1,000
Other limits	OASDI Taxable Wage Base*	168,600	176,100
	414(q)(1)(B) Highly Compensated Employee (HCE) threshold	155,000	160,000
	416(i)(1)(A)(i) Key Employee threshold	220,000	230,000

* For more information on OASDI (Old-Age Survivors, Disability and Hospital Insurance) contact the IRS at (800) TAX-FORM or at their website IRS.gov.

You may find more complete information on the above-referenced plans in one or more of the following IRS Publications:

- Publication 560 – Retirement Plans for Small Business (SEP, SIMPLE and Qualified Plans)
- Publication 571 – Tax-Sheltered Annuity Plans [403(b) Plans]
- Publication 575 – Pension and Annuity Income
- Publication 590-A – Contributions to Individual Retirement Arrangements (IRAs)
- Publication 590-B – Distributions from Individual Retirement Arrangements (IRAs)
- Publication 3998 – Choosing a Retirement Solution for Your Small Business
- Publication 4222 – 401(k) Plans for Small Businesses
- Publication 4806 – Profit-Sharing Plans for Small Business

If you require any of these publications or need additional information, you may contact the IRS at (800) TAX-FORM or at their website IRS.gov.

Endnotes

Source: Internal Revenue Service, IRS Notice 2022–55 and Notice 2023-75.

1. A non-spouse beneficiary who inherits an eligible retirement account will be able to roll over the assets into an “inherited” IRA. Specific rules apply that a non-spouse beneficiary needs to follow in order to elect rollover treatment.
2. However, except for direct rollovers, federal withholding tax of 20% is withheld from distributions from retirement plans, so the investor will have to use other funds to roll over the full amount of the distribution.
3. For additional information, discuss with a tax or financial professional or refer to IRS Publication 590-A.
4. A participant may not contribute more than $6,500 in 2023 (or $7,500 if age 50 or older) in aggregate between a Traditional IRA and a Roth IRA.
5. See IRS Publications 590-A and 590-B for more information on any applicable exceptions.
6. Maximum amount of annual compensation taken into account in determining benefits is $345,000 for 2024 and $350,000 for 2025. Unincorporated, self-employed persons should consult a tax professional regarding additional adjustments to income that may apply.
7. Distributions that do not meet one of the tax-free distribution events may be taxable. Taxability is accorded first to amounts that were contributed/converted, then earnings. Distributions of amounts that were previously taxed upon Roth IRA conversion are subject to the additional 10% federal and applicable state taxes if taken within five calendar years of the conversion.
8. This requirement does not apply to a new employer that comes into existence after October 1 of the year the SIMPLE IRA is established.
9. Distributions are generally subject to 20% federal withholding if not directly rolled over into an IRA. Distributions that are not rolled over may also be subject to additional 10% federal and applicable state taxes if received prior to age 59½.
10. Participants who own more than 5% of the company sponsoring the plan must begin taking distributions by April 1 following the year they reach age 73.
11. If self-employed, earned income must be reduced to take contribution into account.
12. Contribution limits for Roth IRA are subject to reduction and may be phased out based on individual’s Adjusted Gross Income (AGI).

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All financial decisions and investments involve risks, including possible loss of principal.

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