

2012 Comparing Your Retirement Plan Choices

	SEP PLAN	SIMPLE IRA	PROFIT SHARING PLAN	401(K) PROFIT SHARING PLAN	SAFE HARBOR 401(K) PROFIT SHARING PLAN
Key Advantages:	Simple and inexpensive to set up and maintain	Salary deferral plan with limited administrative expense	Flexible contribution amounts	Salary deferral plan with higher limits and flexible employer contributions	Allows owners/highly compensated employees to maximize deferrals
Are Employer Contributions Required?	No	Yes	No	No	Yes
What is the maximum Employer Contribution (per participant)?	Lesser of 25% of compensation* or \$49,000	<u>Matching</u> - 100% match on employee deferrals up to 3% of their compensation; or <u>Non-elective</u> - 2% of each eligible employees compensation*	Maximum deductible employer contribution is 25% of total eligible payroll.*	<u>Matching</u> - up to 100% of employee deferrals. <u>Non-elective</u> - up to 25% of total eligible compensation* Combined match/non-elective cannot exceed 25% of total eligible payroll.	<u>Matching</u> - 100% match employee deferrals up to 3% of compensation* and 50% match on the next 2% or <u>Non-elective</u> - 3% of each eligible employees compensation*. May make discretionary non-elective also. Total employer contribution may not exceed 25% of eligible compensation.
What is the vesting schedule?	All contributions are immediately 100% vested.	All contributions are immediately 100% vested.	Maximum vesting period allowed is six years.	Maximum vesting period allowed is six years.	All contributions are immediately 100% vested.
What is the Maximum Employee Deferral?	Not allowed.	\$11,500 - under age 50 \$14,000 - 50 or over	Not applicable.	\$17,000 - under age 50 \$22,500 - 50 or over	\$17,000 - under age 50 \$22,500 - 50 or over
What are the maximum eligibility requirements an employer may choose?	Age:21 Earnings: \$550 Service: Employed by the employer in up to 3 of the past 5 years	Age: no restriction allowed Earnings: \$5,000 Service: 2 years	Age:21 Earnings: no restriction allowed Hours of Service: 1,000 Service: 1 year if plan has vesting schedule or 2 years with immediate vesting.	Age: 21 Earnings: no restriction allowed Hours of Service: 1,000 Service: 1 year if plan has vesting schedule or 2 years with immediate vesting.	Age:21 Earnings: no restriction allowed Hours of Service: 1,000 Service: 1 year if plan has vesting schedule or 2 years with immediate vesting.
Is an IRS Form 5500 filing required?	No	No	Yes	Yes	Yes
What is the plan setup deadline?	Employer's Tax filing deadline including extensions	Anytime prior to October 1 of each calendar year (for existing employers)	By the end of the initial plan year, generally December 31.	By the end of the initial plan year, generally December 31.	Anytime prior to October 1 of each calendar year (for existing employers)
Maximum contribution (employer plus employee)	\$50,000	\$23,000 - under age 50 \$28,000 - 50 or older	\$50,000	\$50,000 - under age 50 \$55,500 - 50 and over	\$50,000 - under age 50 \$55,500 - 50 and over

* Maximum amount of compensation that can be used in determining contributions in 2012 is \$250,000. This amount is increased periodically for inflation. Hilliard Lyons does not offer tax or legal advice. Please consult your tax advisor or attorney before making any decision that may affect your situation.

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Advantages of the SEP & the SIMPLE IRA

For an employer who is starting his first retirement plan, often the SEP or the SIMPLE IRA is the best choice because there is limited administration and reporting requirements involved. The employer deposits contributions into the IRA

of each plan participant, not into an employer trust account, thereby simplifying the accounting process and the fiduciary responsibilities of the employer.

SEP vs. SIMPLE IRA

Generally the SEP will allow a business owner to make a larger contribution to his own retirement account than the SIMPLE IRA. However, he must contribute the same proportionate percentage of each eligible employee's compensation to their retirement accounts also. Therefore, the larger the company's eligible employee group becomes, the less likely the owner will be able to contribute the maximum 25% of compensation (maximum \$46,000) to his own account.

The SIMPLE IRA shifts a large portion of the cost of the contributions to the employees. The business owner may defer a maximum of \$11,500 (\$14,000 if he is age 50 or older) from his compensation to invest in his retirement account and the company will contribute an employer matching contribution to his account

equal to the lesser of his deferrals or 3% of his total compensation. The maximum contribution that he must make to his employees will be 3% of their compensation and could be less depending on the level of their salary deferrals into the plan.

Both plans require 100% vesting and have limited administration and low cost. The SIMPLE IRA does require payroll involvement for the employee deferrals and the deferrals must be deposited timely throughout the year. The employer match does not need to be made until the employer's tax filing due date. Since the SEP does not have employee deferral contributions, the employer contribution may be made one time a year by the tax filing due date of the year for which the company's deduction is being taken.

SEP/SIMPLE IRAs vs. Profit Sharing/401K Plans

Qualified retirement plans such as a profit sharing plan, 401(k) plan or combined plan, provide the employer with more flexibility in the design and funding of the plan. However, with this flexibility comes additional rules and regulations and increased administration costs and fiduciary liability. But the benefits that these plans provide to the company and the employees may far outweigh the additional cost and responsibilities.

The 401(k) plan allows the owner and employees to defer a larger portion of their compensation, thereby affording them a greater tax savings. A 401(k) plan is a type of profit sharing plan. The employer may make a discretionary contribution to the plan under the same rules as the basic profit sharing plan. However, the maximum allowable annual addition of \$49,000 (for 2010) is a combined limit. It includes any employee deferrals, plus employer contributions and forfeitures that may be allocated to the participant's account. By establishing a 401(k) Profit Sharing plan, the employer shifts a large portion of the cost of contributions to the plan to the employees. This enables the owner and highly compensated employees to reach the maximum annual addition limit (\$49,000) with less cost to the company.

One disadvantage to the 401(k) plan is the fact that the plan must pass the average deferral nondiscrimination test (ADP Test). Basically, this requirement limits the amount that the owner and highly compensated employees may defer to the plan based on the average of the non-highly compensated employees. If the plan has low participation among the non-highly compensated, the highly compensated will not be able to defer the full \$16,500 into the plan.

In situations where a large number of the non-highly compensated employees cannot be encouraged to save on a pre-tax basis, the employer may want to consider the Safe Harbor 401(k) Plan. The employer must make a contribution similar to the contribution required under the SIMPLE IRA but slightly higher. They may match each employee's deferral contribution 100% up to the first 3% of the employee's compensation plus 50% of the employee's deferrals on the next 2% of compensation or they may choose to make a 3% non-elective contribution to all eligible employees.

If the employer makes the safe harbor contributions, the ADP testing will not be required and the owner and highly compensated employees will be able to make the maximum deferral regardless of the deferrals made by the non-highly compensated. The plan does have the option to make an additional non-elective (profit sharing) contribution to all employees. The total deductible employer contribution that may be made to the plan is 25% of eligible compensation.

Note: the increased limits for employees age 50 or older include "catch up" contributions. For 2010, a 50+ participant in a SIMPLE IRA may defer an additional \$2,500 of his compensation to his SIMPLE IRA account. A 50+ participant in a 401(k) plan may defer an additional \$5,500 to his 401(k) account. This additional \$5,500 is not affected by ADP test, so a highly compensated employee who may have his regular deferral limited by the test, will be allowed to defer this additional \$5,500.