

Focus: Retirement plan services

Comparing retirement plans: 2023



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GROUP®**

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**Choose a plan that meets
the needs of your employees
and your organization**

Retirement plan features

Terms in **purple** are defined in glossary

Small businesses

Not-for-profit and education organizations

	SEP IRA	SIMPLE IRA	403(b)
Plan setup and operation			
Who can establish this plan type	Any employer	Any small-business employer (100 or fewer employees)	501(c)(3) organizations, churches and educational institutions (private and public)
Eligibility requirements	Any employee who has been employed in three of the last five years, is at least age 21 and has earned at least \$750	Any employee who has earned at least \$5,000 in any of the prior two years and is expected to earn at least \$5,000 in the current year	Generally, any employee (<i>universal availability rule</i>), although statutory exclusions can apply
Deadline to establish	Tax-filing deadline of employer; plan year is typically calendar year	Between January 1 and October 1; plan year is always calendar year ¹	Before first deferral contribution; plan year can be calendar or fiscal year
Plan setup	IRAs must be established for all eligible employees	SIMPLE IRAs must be established for all eligible and/or participating employees	Qualified custodial accounts or annuity contracts required; retirement income accounts may be used instead for church employees
Investment decisions	Participant	Participant	Participant
Ongoing maintenance	No annual filings or annual required disclosures from employer	Annual notice to eligible employees	Annual Form 5500 filings, ² annual notices for safe harbor contributions, QDIAs and automatic enrollment , as applicable
Nondiscrimination testing	Nondiscrimination testing not required; top-heavy rules apply	Plan is deemed to meet all nondiscrimination tests	Coverage, general nondiscrimination and only ACP tests apply; if safe harbor requirements are met, plan is deemed to meet all nondiscrimination tests ³
Contributions			
Participant pretax contributions	None, except for grandfathered SAR-SEPs (see IRS Publication 560)	\$15,500 \$3,500 catch-up if age 50 or older	\$22,500 \$7,500 catch-up if age 50 or older; qualified participants may have additional catch-up
Participant after-tax contributions	No	No	Available as Roth option
Employer contributions⁴	Discretionary; must be the same percentage for every employee	Mandatory; either a dollar-for-dollar match of up to 3% of compensation, ⁵ or a non-elective contribution of 2% of compensation for all eligible employees	Discretionary, unless safe harbor applies (see table on page 4)
Maximum contributions (employer and employee)⁴	Lesser of 25% of compensation or \$66,000	\$31,000 (combined employee and employer contributions) or \$38,000 (including age-based catch-up), subject to 3% employer match limit ⁶	Lesser of 100% of compensation or \$66,000 (\$73,500 with age-based catch-up contributions)
Distributions			
Participant loans	No	No	Available
Access to contributions	<ul style="list-style-type: none"> Distributions: immediate access Vesting: 100% immediate 	<ul style="list-style-type: none"> Distributions: immediate access Vesting: 100% immediate 	<ul style="list-style-type: none"> Distributions: restricted, subject to plan's terms Vesting: 100% immediate for participant and, generally, for employer contributions
Benefit at retirement	Account balance	Account balance	Account balance of custodial account; annuity

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

¹ May be established after October 1 for a new business formed after October 1 of the year in which the SIMPLE IRA plan is established.

² Filings required for not-for-profits subject to ERISA only; not applicable to most churches or governmental employers.

³ Nondiscrimination testing is not applicable to most churches or governmental employers.

⁴ When determining employer and employee contributions, the compensation that can be taken into account is limited to \$330,000 for 2023 for all purposes except when determining SIMPLE IRA matching contributions.

⁵ Matching contributions may be reduced to a minimum of 1% for no more than two of every five calendar years.

⁶ To receive the maximum contribution, participants must have at least \$516,667 in annual earnings (\$633,333 when the maximum catch-up amount is included).

Retirement plan features (continued)

401(k)	Profit-sharing/Money purchase	Defined benefit
Any employer except government entities	Any employer	Any employer
Generally, any employee who is at least age 21 and has completed a year of service, although statutory exclusions can apply	Generally, any employee who is at least age 21 and has completed a year of service, although statutory exclusions can apply	Generally, any employee who is at least age 21 and has completed a year of service, although statutory exclusions can apply
Before the last day of the fiscal (plan) year. However, participant deferrals cannot be made prior to the adoption date*	Before the due date (including extensions) of the employer's tax return for a particular year	Before the due date (including extensions) of the employer's tax return for a particular year
Qualified trust must be established (can be self-trusteed)	Qualified trust must be established (can be self-trusteed)	Qualified trust must be established (can be self-trusteed)
Participant	Participant and/or plan sponsor	Plan sponsor only
Annual Form 5500 filings, annual notices for safe harbor contributions, QDIAs, automatic enrollment, as applicable	Annual Form 5500 filings, annual notices for QDIAs, as applicable	Annual Form 5500 filings
Coverage, general nondiscrimination, ACP, ADP and top-heavy tests apply; if safe harbor requirements are met, plan is deemed to satisfy the ADP and ACP tests and may qualify for top-heavy exemption	Coverage, general nondiscrimination and top-heavy tests apply	Coverage, general nondiscrimination, top-heavy and minimum participation tests apply
\$22,500 \$7,500 catch-up if age 50 or older	No	Not available
Available as Roth option	No	Available
Discretionary, unless safe harbor applies (see table on page 4)	Discretionary if profit-sharing plan; required if money purchase plan	Determined by actuarial formula
Lesser of 100% of compensation or \$66,000 (\$73,500 with age-based catch-up contribution)	Lesser of 100% of compensation or \$66,000 (up to 25% of compensation is deductible)	Determined by actuarial formula
Available	Available	Available
<ul style="list-style-type: none"> Distributions: restricted, subject to plan's terms Vesting: 100% immediate for participant contributions; employer contributions subject to schedule, except as noted in the table on page 4 	<ul style="list-style-type: none"> Distributions: restricted, subject to plan's terms Vesting: subject to schedule 	<ul style="list-style-type: none"> Distributions: restricted, subject to plan's terms Vesting: subject to schedule
Account balance	Account balance (money purchase plans are required to provide a qualified joint and survivor annuity as a distribution option)	Annuity defined by plan's terms

Some states and cities require, or are considering requiring, private-sector employers who don't offer workers a retirement plan to join a state-controlled program. Given the specific rules and restrictions of state plans, you may want to consider the traditional plan types outlined here.

Choosing the right plan is important, so please consult your financial professional to discuss your options.

*Generally, safe harbor 401(k) plans require an initial plan year of at least three months, making October 1 the effective deadline for a plan with a calendar fiscal year.

Safe harbor options and glossary

Safe harbor contribution options¹

Plan	Matching contribution ²	or	Nonelective contribution ²	Vesting	Notice requirement
SIMPLE IRA Safe harbor contribution is required	<ul style="list-style-type: none"> Dollar-for-dollar match of up to 3% of compensation; 3% match may be reduced to 1% or 2% in no more than two out of every five years 		2% for all eligible employees	100% immediate	Before the 60-day election period begins (before the start of the next plan year)
401(k) or 403(b)	<ul style="list-style-type: none"> Dollar-for-dollar match of up to 3% of compensation and a 50 cents-on-the-dollar match between 3% and 5% of compensation; or Dollar-for-dollar match of up to 4% of compensation; or Other comparable formula 		3% for all eligible employees	100% immediate	No earlier than 90 days and no later than 30 days before the beginning of each plan year. However, plans with only a nonelective safe harbor have no notice requirements.
401(k) or 403(b) with qualified automatic contribution arrangement (QACA) Safe harbor contribution is required	<ul style="list-style-type: none"> Dollar-for-dollar match of up to 1% of compensation and a 50 cents-on-the-dollar match between 1% and 6% of compensation; or Dollar-for-dollar match of up to 3.5% of compensation; or Other comparable formula 		3% for all eligible employees	May be subject to two-year schedule	No earlier than 90 days and no later than 30 days before the beginning of each plan year. However, plans with only a nonelective safe harbor have no notice requirements.

¹ A safe harbor 401(k) plan that meets the safe harbor contribution requirements above is deemed to satisfy the ADP and ACP tests and may qualify for a top-heavy exemption. For a SIMPLE IRA and for a 401(k) or 403(b) plan that also adopts the qualified automatic enrollment feature, either the match or nonelective contribution must be made (as described in the first and third rows above). For a SIMPLE IRA, no additional contributions can be made.

² When determining employer and employee contributions, the compensation that can be taken into account is limited to \$330,000 for 2023 for all purposes except when determining SIMPLE IRA matching contributions.

Glossary

Automatic enrollment: An optional feature a plan may adopt that accepts employee contributions. Employees are automatically enrolled in the plan instead of having to sign up to participate. Auto-enroll plans typically involve selection (by the employer) of a default investment in which all contributions are automatically invested (see QDIA) and a default deferral rate, which could increase gradually over time. A “qualified” automatic enrollment arrangement must satisfy minimum deferral rate percentage requirements. Employees can opt out or increase or reduce their savings rate or change their investment mix at any time.

Form 5500: An annual report that ERISA plans must file with the Department of Labor to show plan coverage and financial information. Large plans (generally 100 or more participants) must engage an independent auditor each year to prepare a financial statement as part of the Form 5500 filing.

Nondiscrimination testing: The following are brief definitions of several key annual nondiscrimination tests that may apply to a plan and be deemed to be met if a 401(k) or 403(b) plan adopts a safe harbor contribution feature (see table above). Other tests (not described here) include coverage, general nondiscrimination and maximum limits, which generally apply to defined contribution (even those with a safe harbor feature) and defined benefit plans, and minimum participation, which applies to defined benefit plans.

• **ACP (actual contribution percentage):**

This test applies to 401(k) and 403(b) plans and uses an average of the matching contributions made to nonhighly compensated employees to limit the matching contributions to highly compensated employees, on average.

• **ADP (actual deferral percentage):**

This test applies to 401(k) and SAR-SEP plans and uses an average percentage of the non-highly compensated employees’ deferral to limit the amount that highly compensated employees may defer on average.

• **Top-heavy:** This test applies to SEP, profit-sharing, money-purchase, 401(k) and defined benefit plans. A plan is considered top-heavy if the total value of all key employees’ accounts is greater than 60% of the total value of all employees’ accounts. In this case, the employer must make to the plan a minimum contribution equal to 3% (or the highest allocation made to key employees, if less).

QDIA (qualified default investment alternative):

QDIAs provide a safe harbor for plan fiduciaries in situations in which plan participants fail to provide investment instructions. By selecting a default investment that qualifies as a QDIA and meeting other regulatory conditions (e.g., initial and annual notice requirements), employers can benefit from certain fiduciary relief under ERISA §404(c)(5). Only certain types of investments qualify as a QDIA (e.g., managed account, target date fund, balanced fund).

Qualified trust: Qualified plan assets must be held in trust. Plan sponsors may choose to act as trustee for the plan or hire a corporate trustee to handle contributions, plan investments and distributions. Use of a corporate trustee by a large plan (generally 100 or more participants) may allow the independent auditor to do a limited-scope audit (lower cost).

Roth option: A Roth option may be offered within 401(k) and 403(b) plans. It enables plan participants to make after-tax contributions to their plan and then, assuming certain requirements are met, withdraw the earnings tax-free.

Vesting: The process by which a participant in a retirement plan becomes entitled to ownership of the benefit. Depending on the plan’s vesting schedule, participants can become fully vested (own) the benefit immediately or over time (incrementally over no more than six years, or all at once after no more than three years).

Annual contribution limits at a glance^{1,2,3}

SEP IRA (Simplified Employee Pension)	Employer contributions Maximum employer contributions (employee contributions not permitted): lesser of 25% of participant's compensation or \$66,000	\$66,000
SIMPLE IRA (Savings Incentive Match Plan for Employees)	Total contributions Maximum total participant contributions and employer match: \$31,000 (\$38,000 with age-based catch-up contributions and employer match), subject to 3% employer-match limit ⁴	\$31,000 / \$38,000
	• Participant contributions Maximum participant contributions	\$15,500
	• Participant age-based catch-up contributions Additional contributions for participants age 50 or older	\$3,500
401(k) and 403(b) plans	Total contributions Maximum total participant and employer contributions (combined): lesser of 100% of participant's compensation or \$66,000 (\$73,500 with age-based catch-up contributions)	\$66,000 / \$73,500
	• Participant contributions Maximum participant contributions	\$22,500
	• Participant age-based catch-up contributions Additional contributions for participants age 50 or older; certain 403(b) plan participants may contribute more if they meet length-of-service requirements	\$7,500
Profit-sharing and money purchase plans	Employer contributions Maximum employer contributions (employee contributions not permitted): lesser of 100% of participant's compensation or \$66,000 (up to 25% of compensation is deductible)	\$66,000

¹ When participants withdraw before-tax contributions from their plan, that money is subject to ordinary income tax and, if withdrawn before age 59½, may be subject to an additional 10% federal tax penalty (25% penalty if withdrawn from a SIMPLE IRA within the first two years).

² Generally, defined contribution plans have a deductible limit of 25% of eligible payroll. Check with your tax advisor for specifics.

³ When determining employer and employee contributions, the compensation that can be taken into account is limited to \$330,000 for 2023 for all purposes except when determining SIMPLE IRA matching contributions.

⁴ Maximum based on employer matching contributions of 3%, for participants earning at least \$516,667 annually (\$633,333 when the maximum catch-up amount is included).

The Capital Advantage®

Since 1931, Capital Group, home of American Funds, has helped investors pursue long-term investment success. Our consistent approach – in combination with The Capital System™ – has resulted in superior outcomes.

Aligned with investor success

We base our decisions on a long-term perspective, which we believe aligns our goals with the interests of our clients. Our portfolio managers average 28 years of investment industry experience, including 22 years at our company, reflecting a career commitment to our long-term approach.¹

The Capital System

The Capital System combines individual accountability with teamwork. Funds using The Capital System are divided into portions that are managed independently by investment professionals with diverse backgrounds, ages and investment approaches. An extensive global research effort is the backbone of our system.

American Funds' superior outcomes

Equity-focused funds have beaten their Lipper peer indexes in 90% of 10-year periods and 99% of 20-year periods.² Relative to their peers, our fixed income funds have helped investors achieve better diversification through attention to correlation between bonds and equities.³ Fund management fees have been among the lowest in the industry.⁴

¹ Investment industry experience as of December 31, 2022.

² Based on Class F-2 share results for rolling monthly 10- and 20-year periods starting with the first 10- or 20-year period after each mutual fund's inception through December 31, 2022. Periods covered are the shorter of the fund's lifetime or since the comparable Lipper index inception date (except Capital Income Builder and SMALLCAP World Fund, for which the Lipper average was used). Expenses differ for each share class, so results will vary. Past results are not predictive of results in future periods.

³ Based on Class F-2 share results as of December 31, 2022. Sixteen of the 18 fixed income American Funds that have been in existence for the three-year period showed a three-year correlation lower than their respective Morningstar peer group averages. S&P 500 Index was used as an equity market proxy. Correlation based on monthly total returns. Correlation is a statistical measure of how two securities move in relation to each other. A correlation ranges from -1 to 1. A positive correlation close to 1 implies that as one security moves, either up or down, the other security will move in "lockstep," in the same direction. A negative correlation close to -1 indicates that the securities have moved in the opposite direction.

⁴ On average, our mutual fund management fees were in the lowest quintile 62% of the time, based on the 20-year period ended December 31, 2022, versus comparable Lipper categories, excluding funds of funds.

Class F-2 shares were first offered on August 1, 2008. Class F-2 share results prior to the date of first sale are hypothetical based on the results of the original share class of the fund without a sales charge, adjusted for typical estimated expenses. Results for certain funds with an inception date after August 1, 2008, also include hypothetical returns because those funds' Class F-2 shares sold after the funds' date of first offering. Refer to capitalgroup.com for more information on specific expense adjustments and the actual dates of first sale.

Although Class F-2 shares are not available for purchase by retirement plans, their results reflect the investment management experience of American Funds without retirement plan recordkeeping expenses. American Funds offers plan sponsors flexibility in how they pay for plan operating expenses (such as recordkeeping fees) through distinct retirement plan share classes.

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