



Choosing the
right retirement
plan solution
for your small
business



As a small business owner, you have three key reasons to consider establishing a retirement savings plan for you and your employees:

1. **You can help your employees begin to invest for their future.** Nearly 51% of Americans worry that they'll run out of money when they're no longer earning a paycheck — and 70% of retirees wish they had started saving earlier.¹
2. **You can improve your recruiting effectiveness and employee retention.** 76% of employees are likely to be attracted to a company that cares about their financial well being.²
3. **Retirement plans can provide tax savings for your business, for your employees and for you.**

If you determine that you'd like to offer your employees a plan, you have several retirement plan options to choose from:

- **IRA-based plans**
- **Defined-contribution based plans**
- **Defined benefit plans**
- **Illinois Secure Choice plans**

There are pros and cons for each, depending on your business's unique situation. But once you identify your most important goals, your Mesirow Wealth Advisor can make recommendations with those objectives in mind. On the next page, you'll find a brief description of the options available, and the **chief advantages they offer.**

IRA-based plans

SIMPLIFIED EMPLOYEE PENSION PLANS (SEP IRA)

A SEP IRA plan allows employers of any size company to set aside money in retirement accounts for themselves and their employees. Employers generally must contribute a uniform percentage of pay for each employee, although they do not have to make contributions every year. **SEP IRAs are easy to set up and have low administrative costs as well as flexible annual contributions, which are good for businesses with cash flow issues.**³

SIMPLE IRA PLANS

SIMPLE IRA plans are similar to SEP IRA plans, but are available to small businesses with 100 or fewer employees. This plan allows employees to contribute a percentage of their salary each paycheck and requires employer contributions. **SIMPLE IRAs are easy to set up, with low operating costs.**⁴

Defined contribution-based plans

TRADITIONAL 401(K) PLANS

401(k) plans have become a widely accepted retirement savings vehicle for small businesses. An estimated 60 million US workers participate in 401(k) plans. With a 401(k) plan, employees can choose to defer a portion of their salary and these deferrals are made on a pretax basis. **401(k)s allow a high level of salary deferrals by employees.** Many plans allow for employer matching contributions. 401(k) plans are often managed by financial institutions and other organizations on the employer's behalf.⁵

SAFE HARBOR 401(K) PLANS

A safe harbor 401(k) plan is intended to encourage plan participation among rank-and-file employees and to ease the administrative burden by eliminating the tests ordinarily applied under a traditional 401(k) plan. **This plan is ideal for businesses with highly compensated employees whose contributions would be limited in a traditional 401(k) plan.**

AUTOMATIC ENROLLMENT 401(K)

Automatic enrollment 401(k) plans can **increase plan participation among rank-and-file employees and make it more likely that the plan will pass the tests ordinarily required under a traditional 401(k) plan.**

PROFIT SHARING

Employer contributions to a profit sharing plan can be discretionary. **Depending on the plan terms, there is often no set amount that an employer needs to contribute each year.**⁶

Defined benefit plans

A defined benefit plan provides a fixed, pre-established retirement benefit for employees and is fully funded by the employer.

Illinois Secure Choice

The state of Illinois has mandated that all businesses offer a retirement plan to their employees. Businesses may choose their own plan OR opt for Illinois Secure Choice. **The program is open to employers that had at least five employees in every quarter of the previous year, have been in operations for at least two years, and do not offer or contribute to a qualified retirement plan.**⁷

Retirement plan highlights (2024)

Employee (EE) / Employer (ER)

	IRA-based plans		Defined contribution-based plans	
	SEP IRA	SIMPLE IRA Plan	Traditional 401(k)	Safe Harbor 401(k)
Key advantage	Easy to set up/maintain	Salary reduction plan with some administrative paperwork	Permits high level of salary deferrals by EEs	Permits high level of salary deferrals by EEs without annual nondiscrimination testing
Who contributes to the plan?	ER contributions only	EE and ER contributions	EE and ER contributions	EE and ER contributions
Contributor's options	ER can make annual contribution decisions	<ul style="list-style-type: none"> • EE decides how much to contribute • ER must make matching contributions or a 2% contribution to all participants 	<ul style="list-style-type: none"> • EE decides how much to contribute • ER can make additional contributions as set by plan terms 	<ul style="list-style-type: none"> • EE decides how much to contribute • ER must make matching contributions or a 3% contribution to all participants
ER's role	<ul style="list-style-type: none"> • IRS Form 5305-SEP to set up plan • No annual filing requirement 	<ul style="list-style-type: none"> • IRS Form 5304-SIMPLE or 5305-SIMPLE to set up plan • No annual filing requirement • Bank or financial institution handles most of the paperwork 	<ul style="list-style-type: none"> • No model form to establish plan • Recommend professional advice • Requires annual nondiscrimination testing • Annual Form 5500 	<ul style="list-style-type: none"> • No model form to establish plan • Recommend professional advice • ER contributions are required • Annual Form 5500
Max participant annual contribution	Lesser of \$69,000 or 25% of participant's compensation	\$16,000 (\$19,500 if age 50+)	\$23,000 (\$30,500 if age 50+)	\$23,000 (\$30,500 if age 50+)
Minimum employment coverage	Must be offered to all EEs who are age 21+, employed by the ER for 3 of the last 5 years and had compensation of \$750 for 2024	Must be offered to all EEs who have compensation of at least \$5,000 in any prior 2 years and are reasonably expected to earn at least \$5,000 in the current year	Generally, must be offered to all EEs who are age 21+ and who worked at least 1,000 hours in a previous year	Generally, must be offered to all EEs who are age 21+ and who worked at least 1,000 hours in a previous year
Access to funds prior to retirement	<ul style="list-style-type: none"> • Withdrawals permitted, but subject to federal income taxes; early withdrawal subject to an additional tax • Loans are not permitted 	<ul style="list-style-type: none"> • Withdrawals permitted, but subject to federal income taxes; early withdrawals subject to an additional tax • Loans are not permitted 	<ul style="list-style-type: none"> • Event-driven withdrawals permitted and are subject to federal income taxes • Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax 	<ul style="list-style-type: none"> • Event-driven withdrawals permitted and are subject to federal income taxes • Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax
Vesting	Contributions are 100% vested	All contributions are 100% vested	<ul style="list-style-type: none"> • EE contributions are 100% vested • ER contributions may vest over time 	<ul style="list-style-type: none"> • EE contributions and safe harbor ER contributions are 100% vested • Some ER contributions may vest over time

		Defined benefit plans	IL state mandate
Automatic Enrollment 401(k)	Profit Sharing	Defined Benefits Plans	Illinois Secure Choice
Provides high level of participation and permits high level of salary deferrals by EEs. Affords safe harbor relief for default investments	Permits ER to make large contributions for EEs	Provides a fixed, pre-established retirement benefit for EEs	Provides an alternative retirement plan for ER rather than selecting their own plan
EE and ER contributions	Discretionary annual ER contribution	Primarily funded by ER	EE contributes to a Roth IRA
<ul style="list-style-type: none"> • EE must make ER-specified contributions unless they opt out • ER can make additional contributions as set by plan terms 	<ul style="list-style-type: none"> • ER makes contribution as set by plan terms 	<ul style="list-style-type: none"> • ER generally required to make contributions as set by plan terms 	<ul style="list-style-type: none"> • EE can make an annual contribution
<ul style="list-style-type: none"> • No model form to establish plan • Recommend professional advice • May require annual nondiscrimination testing • Annual Form 5500 	<ul style="list-style-type: none"> • No model form to establish plan • Recommend professional advice • Must file annual Form 5500 	<ul style="list-style-type: none"> • No model form to establish plan • Recommend professional advice • An actuary must determine annual contributions • Annual Form 5500 	<ul style="list-style-type: none"> • ER must appropriately register the firm and provide accurate information to EEs • No additional cost to the ER
\$23,000 (\$30,500 if age 50+)	Lesser of 100% or \$69,000	Annual benefit cannot exceed lesser of 100% of participant average compensation for highest 3 consecutive calendar years or \$275,000	\$7,000 (8,000 if age 50+)
Generally, must be offered to all EEs who are age 21+ and who worked at least 1,000 hours in a previous year	Generally, must be offered to all EEs who are age 21+ and who worked at least 1,000 hours in a previous year	Generally, must be offered to all EEs who are age 21+ and who worked at least 1,000 hours in a previous year	Generally, must be offered to all EEs who are age 21+ and who worked at least 1,000 hours in a previous year
<ul style="list-style-type: none"> • Event-driven withdrawals permitted and are subject to federal income taxes • Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax 	<ul style="list-style-type: none"> • Event-driven withdrawals permitted and are subject to federal income taxes • Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax 	<ul style="list-style-type: none"> • Payment of benefits after a specified event occurs • Plan may permit loans, early withdrawals subject to an additional tax 	<ul style="list-style-type: none"> • Cannot access funds before age 59½ (exceptions apply) • 5-year holding period on the account • Able to make first-time withdraw up to 10,000
<ul style="list-style-type: none"> • EE contributions are 100% vested • ER contributions may vest over time 	<ul style="list-style-type: none"> • May vest over time according to plan terms 	<ul style="list-style-type: none"> • May vest over time according to plan terms 	<ul style="list-style-type: none"> • Contributions are 100% vested

Your goals will determine which plan makes the most sense for you

Which plan is best for you and your business? There isn't an easy answer, but based on your goals and objectives, a Mesirow Wealth Advisor can help you map out the best strategy to address both your personal needs and the needs of your business.

Here are some examples of the types of goals that many business owners consider:

Goal: I want to maximize how much I can personally can put away for retirement. In other words, a key goal for the retirement plan would be for me to **maximize the benefit for me.**

Goal: I want to minimize or maximize how much my business will contribute to the plan **on behalf of my employees** in any given year.

Goal: I want to **keep it simple**; the easier the plan is to set up and maintain, the better.

Goal: I want to **control costs**, the less expensive the plan is to administer, the better.

Additional tools for small business owners

At Mesirow, our knowledgeable Wealth Advisors have extensive experience helping business owners like you establish and maintain their employer-sponsored retirement plans. We also help business owners with comprehensive financial planning that integrates their personal and professional lives, including the difficult decision-making that often occurs when retiring and/or selling your business.

Here are some additional tools that you may find beneficial:

SELLING YOUR BUSINESS GUIDE

Business owners don't typically start a business knowing if or when they will sell it. But if you've made that difficult choice, the earlier you start preparing for your exit, the better. This guide offers best practices to help you get ready.

[Download it here](#) or email us at wealth@mesirow.com.

THE THREE P'S

Just as you are identifying short- and long-term growth goals and strategies for the company, it is important to identify short- and long-term personal financial goals and plans for you and your family.

[Read more](#) or email us at wealth@mesirow.com.

THREE TIPS FOR EVERY BUSINESS OWNER

Most small business owners' planning strategies are centered around the success and growth of the business. The three most commonly overlooked planning concepts involve ownership, retirement savings, and succession planning.

[Read more](#) or email us at wealth@mesirow.com.

Join our over 85-year legacy

We invest in what matters: our clients, our communities and our culture

Mesirow is an independent, employee-owned financial services firm founded in 1937. Headquartered in Chicago, with locations around the world, we serve clients through a personal, custom approach to reaching financial goals and acting as a force for social good. With capabilities spanning Global Investment Management, Capital Markets & Investment Banking, and Advisory Services, we invest in what matters: our clients, our communities and our culture.

The vision of our founder, Norman Mesirow, was to serve with purpose, applying the highest standards of professionalism in advising individuals and families on their most important life goals. More than eight decades later, we measure our client relationships in years and in generations, as we move in unison with our clients toward shared goals.

We look forward to having an opportunity to serve you and your family.

To learn more, visit [mesirow.com/wealthmanagement](https://www.mesirow.com/wealthmanagement), call 847.681.2300 or email wealth@mesirow.com.

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1. <https://www.pewtrusts.org/en/about/news-room/opinion/2024/01/18/america-has-a-retirement-crisis-we-need-to-make-it-easier-to-save>
 2. <https://www.pwc.com/us/en/services/consulting/business-transformation/library/EE-financial-wellness-survey.html>
 3. <https://www.irs.gov/retirement-plans/plan-sponsor/simplified-employee-pension-plan-sep>
 4. <https://www.irs.gov/retirement-plans/plan-sponsor/simple-ira-plan>
 5. <https://www.irs.gov/retirement-plans/plan-sponsor/401k-plan-overview>
 6. <https://www.irs.gov/retirement-plans/choosing-a-retirement-plan-profit-sharing-plan>
 7. <https://www.ilsecurechoice.com/>

Additional sources:

- <https://www.dol.gov/sites/dolgov/files/ebsa/about-ebsa/our-activities/resource-center/publications/choosing-a-retirement-solution-for-your-small-business.pdf>
<https://www.mesirow.com/sites/default/files/PDFs/Wealth/2024-Contribution-Limits.pdf>
<https://www.irs.gov/>

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