



| 401k Plan

What is a 401(k) Plan?

A 401(k) plan is an employer-sponsored retirement plan that allows employees to contribute a portion of their wages to individual accounts. Employers can contribute to employees' accounts, that provides a strong incentive for employee participation. Because contributions are pretax, a 401(k) can reduce the employees' taxes.

Who is it for?

- Any type of business
- Sole proprietorships, partnerships and corporations

What are the benefits?

Contributions - A 401(k) can accept the following contributions:

- Employer profit-sharing contributions
- Employee pretax contributions up to \$19,500 (2020)
- Catch-up for those age 50 and older. An additional \$6,500 (2020) contribution can be made.
- Matching contributions by the employer
- After-tax Roth contributions
- After-tax employee contributions

Roth Contributions - The Roth option in a 401(k) allows an employee to designate part or all of its 401(k) contribution as Roth after-tax dollars. If certain requirements are met, the Roth distributions from a 401(k) may be tax-free.

- The contributions per individual cannot exceed 100% of the individual's annual compensation or \$57,000 (2020), whichever is less, plus the catch-up contribution. Total employer contributions (other than salary deferral contributions) cannot exceed 25% of all eligible employees' compensation.
- For 2020, the maximum compensation that may be used is \$285,000.

Eligibility

Eligibility depends on how the employer sets up the plan. Usually an employee must be 21 years of age, with one year of service (1,000 hours).

Vesting

Employees are immediately vested in salary deferrals and certain qualifying matching and non-elective contributions. Employers may impose a vesting schedule on the contributions they make on behalf of the employee.

Deadlines

The plan must be established by the employer before salary deferrals begin. Salary deferrals must be deposited no later than the 15th business day of the month following the month of deferral. The employer has until the business' tax filing deadline, plus extensions, to fund the employer contributions. Business owners may be required to file Form 5500 with the IRS within seven months after the plan year-end.

Additional Information

Once money is in a 401(k) plan, the participant cannot make withdrawals before age 59-1/2, except for special circumstances. Many employers, however, include loan provisions in their plans.