

The 401(k) is a very flexible retirement plan design that is available to businesses of any size. These plans offer many features that make them attractive to both employers and employees. However, these plans also require more administration and can cost more than other retirement plan options. Still, its flexibility makes the 401(k) a popular choice for large and small businesses alike.

## Advantages of a 401(k)



**Tax deferral:** Employees can make salary deferrals on a pre-tax basis of up to \$23,000 in 2024. For 2025 it increases to \$23,500. See the IRS chart for catch-contributions if age 50 and older.



**Matching contributions:** Employers may make matching and profit-sharing contributions that, when combined, total up to a maximum of 25% of compensation. In 2024, according to the 415(c) limit the combination of employee deferrals and employer contributions may total up to the lesser of 100% of compensation or \$69,000. For 2025, it increases to \$70,000. These amounts do not include the catch-up contributions. See the IRS chart for catch-contributions if age 50 and older.



**Flexibility:** Employers can determine matching formulas and vesting schedules of employer contributions and can implement features such as automatic enrollment and automatic deferral increases.

## Other 401(k) considerations

- Loans and hardship withdrawals are permitted if the plan documents allow.
- Eligibility requirements can vary based on plan design, and can be established to allow for exclusion of part-time and seasonal employees. Per SECURE 2.0, Long-term, Part-time (LTPT) employees must be considered for eligibility purposes.
- Employee Roth contributions may be allowed, depending on plan design. SECURE 2.0 does allow for Employer contributions to be designated as Roth also, but few providers currently offer this.
- Require more administration than other plans, resulting in administrative costs.
- Top-heavy and nondiscrimination testing is required.
- IRS Form 5500 filing is required.
- Per SECURE 2.0 plans started after Dec 29, 2022 and all new traditional and Safe Harbor 401ks are required to automatically enroll participants at a deferral rate of 3-10% and auto escalate at least 1% annually until reaching 10-15%, as determined by the plan. Plans must give participants the option to opt-out.

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