# 401(k)s and Business IRAs

Federated Hermes

## At-A-Glance Guide

2024 Guidelines

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| **Who Contributes** | | |
| **SIMPLE IRA** | Employee and Employer (Employer contributions are mandatory only and no discretionary contributions are permitted) | |
| **SEP IRA** | Employee and Employer[1] | |
| **401(k)**<br>**Roth 401(k)** | Employee and Employer | |
| **Safe Harbor 401(k)** | Employee and Employer (Employer contributions are mandatory and may be supplemented by additional discretionary contributions) | |
| **Employer Eligibility** | | |
| **SIMPLE IRA** | Employers with no more than 100 employees who earned $5,000 or more from the employer in the previous year<br>Employer may not currently maintain any other employer-sponsored tax-advantaged retirement plan | |
| **SEP IRA** | All Employers. If the employer maintains another tax-qualified retirement plan, it may not use IRS Form 5305-SEP to establish the SEP-IRA arrangement | |
| **401(k)**<br>**Roth 401(k)**<br>**Safe Harbor 401(k)** | All Employers, exclusive of governmental agencies | |
| **Employee Eligibility** | | |
| **SIMPLE IRA** | **Eligible Employee:**<br>Any employee who meets these criteria:<br>• Earned at least $5,000 from employer in each of any two prior years<br>• Expected to earn at least $5,000 from employer in current year | **May exclude:**<br>• Certain bargaining-unit employees<br>• Non-resident aliens with no U.S. source income<br>• Employees who would otherwise be eligible by reason of a corporate transaction in that year or the prior year |
| **SEP IRA** | **Eligible Employee:**<br>Any employee who meets these criteria:<br>• Has worked for employer three out of the last five years and earned at least $750[2] from employer in the current year | **May exclude:**<br>• Certain bargaining-unit employees<br>• Non-resident aliens with no U.S. source income<br>• Employees under age 21 |
| **401(k)**<br>**Roth 401(k)**<br>**Safe Harbor 401(k)** | **Eligible Employee:**<br>Any employee | **May exclude:**<br>• Bargaining-unit employees<br>• Non-resident aliens with no U.S. source income<br>• Employees under age 21<br>• Employees with less than one year of service (can be extended to a two-year exclusion from employer contributions if the plan provides for full vesting after two years of service). May not exclude noncollectively bargained employees who have attained age 21 and who have completed at least 500 hours of service for three consecutive 12-month periods from employee contributions.<br>• Plan may exclude any group of employees if the exclusion does not cause the plan to fail tests that prohibit disproportionate discrimination in favor of highly compensated employees |
| **Pre-Tax Employee Deferral** | | |
| **SIMPLE IRA** | Salary reduction is voluntary[3,4] | |
| **SEP IRA** | May be permitted[3,4,5] | |
| **401(k)**<br>**Safe Harbor 401(k)** | Salary reduction[3] | |
| **Roth 401(k)** | Not pre-tax. Potentially tax-free growth and potentially tax-free distributions. | |

2024 Guidelines

## Contribution Limit

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| **SIMPLE IRA** | **Employer Match:**<br>• Required to match dollar-for-dollar up to 3% of compensation for each employee who elects to participate, though a match as low as 1% may be specified for any two years in a five-year period<br>***OR***<br>**Employer Contribution:**<br>• Required to make a 2% of compensation "non-elective" contribution of each eligible employee's compensation (if the employee earns at least $5,000 during the plan year), whether they elect to participate or not. Employee compensation is limited to $345,000[2] | **Employee Contribution:[8]**<br>• Any percentage of compensation up to $16,000[2]<br>• Additional "catch-up" contribution available for employees age 50 and up by December 31 of contribution year — $3,500 limit[2] |
| **SEP IRA** | **Employer Contribution:**<br>• Up to $69,000 or 25% of the employee's compensation, which is limited to $345,000 — whichever is less[2]<br>• Employer contribution must be a uniform percentage of compensation (and may or may not be integrated with social security) | **Employee Contribution:[5]**<br>• Employees may make pre-tax salary reduction contributions to a salary reduction SEP (SARSEP) IRA established before January 1, 1997. Employees may make regular, after-tax contributions to a SEP IRA, which may or may not be deductible, in accordance with the Traditional IRA contribution rules and limits. |
| **401(k)** | **Employee Contribution:**<br>• Up to $23,000[2]<br>• Additional "catch-up" contribution available for employees age 50 and up by December 31 of contribution year — $7,500 limit[2]<br>• After-tax contributions | **Combined Employee/Employer Contribution:**<br>• Up to $69,000 or 100% of the employee's compensation, which is limited to $345,000 — whichever is less[2]<br>• Employer contributions are optional<br>• Employee and employer matching contributions may be limited for owners and other highly compensated employees if required to pass the ADP or ACP nondiscrimination test |
| **Roth 401(k)** | **Employee Contribution:**<br>• Up to $23,000[2]<br>• Additional "catch-up" contribution available for employees age 50 and up by December 31 of contribution year — $7,500 limit[2]<br>To the extent an employee opts to contribute both pre-tax and Roth contributions to the plan, the combined contribution may not exceed the contribution limit. | **Combined Employee/Employer Contribution:**<br>• Up to $69,000 or 100% of the employee's compensation, which is limited to $345,000 — whichever is less[2]<br>• Employer contributions are optional<br>• Employer contributions will be treated as pre-tax dollars<br>• Employee and employer matching contributions may be limited for owners and other highly compensated employees if required to pass the ADP or ACP nondiscrimination test |
| **Safe Harbor 401(k)** | **Employee Contribution:**<br>• Up to $23,000[2]. Additional "catch-up" contribution available for employees age 50 and up by December 31 of contribution year — $7,500 limit[2]. Owners and other highly compensated employees can make contributions without being limited by the ADP test.<br>• After-tax contributions<br>**Combined Employee/Employer Contribution:**<br>• Up to $69,000 or 100% of the employee's compensation, which is limited to $345,000 — whichever is less[2]<br>• Additional (non-Safe Harbor) employer contributions are optional<br>• Employer contributions are made on a pre-tax basis | **Employer Match:**<br>• Basic safe harbor matching formula: 100% of elective deferrals up to 3% of compensation plus 50% of elective deferrals on the next 2% of compensation<br>• Enhanced matching formula permitted — e.g., 100% on 4% of compensation (but no greater than 6% of compensation may be matched if exemption from ACP matching contribution nondiscrimination test is intended)<br>• Qualified Automatic Contribution Arrangements matching formula: 100% matching contribution on the first 1% of compensation deferred, then 50% matching contributions on employee contributions greater than 1% and up to 6% of compensation deferred. Requires automatic enrollment of participants.<br>***OR***<br>**Employer Non-elective:**<br>• Minimum of 3% of all eligible participants' compensation. All eligible employees would receive this non-elective contribution whether making salary reduction contributions or not. |

## Tax-Deductibility

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| **SIMPLE IRA**<br>**SEP IRA**<br>**401(k)**<br>**Roth 401(k)**<br>**Safe Harbor 401(k)** | Generally, employee contributions are fully deductible and employer contributions are deductible up to 25% of aggregate participating employee compensation<br>Employer may be able to claim a tax credit for a portion of start-up costs |

## Vesting

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| **SIMPLE IRA**<br>**SEP IRA** | Immediate |
| **401(k)**<br>**Roth 401(k)** | Immediate for employee's contribution<br>Vesting of employer matching and non-matching contributions may take place over a maximum of six years if graded or three years if cliff vesting is used |
| **Safe Harbor 401(k)** | Immediate for employee's contribution and safe harbor contributions (unless a qualified automatic contribution arrangement matching contribution, which is subject to a two year vesting schedule)<br>Additional employer contributions can be made subject to a vesting schedule of up to six years if graded or three years if cliff |

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| Withdrawals Prior to Age 59½ | |
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| **SIMPLE IRA** | Taxed as ordinary income and subject to a 10% tax penalty<br>25% tax penalty on amount taken within first two years of initial participation<br>Penalty exceptions include: death; disability; terminal illness; medical expenses over 10% of AGI (Adjusted Gross Income); medical insurance premiums during period of unemployment; scheduled series of substantially equal periodic lifetime payments; first-time home purchase expenses (lifetime limit $10,000); qualified post-secondary education expenses; specific federally declared disasters; corrective distributions of excess contributions and earnings; certain distributions during a period of military reserve duty; and to satisfy certain IRS tax liens. Effective for distributions made after December 31, 2019, during the one-year period beginning on the birth of your child or your adoption of an individual who (i) is not your child and (ii) who has not attained age 18 or who is physically or mentally incapable of self-support, a maximum of $5,000 may be excluded from the 10% penalty tax with respect to any such birth or adoption. |
| **SEP IRA** | Taxed as ordinary income and subject to a 10% tax penalty<br>Penalty exceptions include: death; disability; terminal illness; medical expenses over 10% of AGI (Adjusted Gross Income); medical insurance premiums during period of unemployment; scheduled series of substantially equal periodic lifetime payments; first-time home purchase expenses (lifetime limit $10,000); qualified post-secondary education expenses; specific federally declared disasters; corrective distributions of excess contributions and earnings; certain distributions during a period of military reserve duty; and to satisfy certain IRS tax liens. Effective for distributions made after December 31, 2019, during the one-year period beginning on the birth of your child or your adoption of an individual who (i) is not your child and (ii) who has not attained age 18 or who is physically or mentally incapable of self-support, a maximum of $5,000 may be excluded from the 10% penalty tax with respect to any such birth or adoption. |
| **401(k)** | With the exception of rollovers and after-tax contributions, generally not available unless on the basis of hardship (special exceptions may apply for participants on military leave)<br>Taxed as ordinary income and subject to a 10% tax penalty<br>Penalty exceptions include: death; disability; terminal illness; medical expenses over 10% of AGI (Adjusted Gross Income); scheduled series of substantially equal periodic lifetime payments; payment after separation from service if age 55 or over; specific federally declared disasters; corrective distributions of excess contributions and earnings; and certain distributions during a period of military reserve duty. Effective for distributions made after December 31, 2019, during the one-year period beginning on the birth of your child or your adoption of an individual who (i) is not your child and (ii) who has not attained age 18 or who is physically or mentally incapable of self-support, a maximum of $5,000 may be excluded from the 10% penalty tax with respect to any such birth or adoption. |
| **Roth 401(k)** | With the exception of rollovers and after-tax contributions, generally not available unless on the basis of hardship (special exceptions may apply for participants on military leave)<br>"Growth" earnings portion of the withdrawals is taxed as ordinary income and subject to a 10% tax penalty unless the distribution is made more than five years after the first day of the year for which the first Roth 401(k) contribution was made and is made following the the death or disability of the employee<br>Penalty exceptions include: death; disability; terminal illness; medical expenses over 10% of AGI (Adjusted Gross Income); scheduled series of substantially equal periodic lifetime payments; payment after separation from service if age 55 or over; specific federally declared disasters; corrective distributions of excess contributions and earnings; and certain distributions during a period of military reserve duty. Effective for distributions made after December 31, 2019, during the one-year period beginning on the birth of your child or your adoption of an individual who (i) is not your child and (ii) who has not attained age 18 or who is physically or mentally incapable of self-support, a maximum of $5,000 may be excluded from the 10% penalty tax with respect to any such birth or adoption.<br>The portion of the distributions that come from employee Roth contributions (excluding earnings) is not subject to tax or penalty |
| **Safe Harbor 401(k)** | With the exception of rollovers and after-tax contributions, generally not available unless on the basis of hardship (special exceptions may apply for participants on military leave)<br>Taxed as ordinary income and subject to a 10% penalty<br>Penalty exceptions include: death; disability; terminal illness; medical expenses over 10% of AGI (Adjusted Gross Income); scheduled series of substantially equal periodic lifetime payments; payment after separation from service if age 55 or over; specific federally declared disasters; corrective distributions of excess contributions and earnings; and certain distributions during a period of military reserve duty. Effective for distributions made after December 31, 2019, during the one-year period beginning on the birth of your child or your adoption of an individual who (i) is not your child and (ii) who has not attained age 18 or who is physically or mentally incapable of self-support, a maximum of $5,000 may be excluded from the 10% penalty tax with respect to any such birth or adoption. |
| **Withdrawals After Age 59½** | |
| **SIMPLE IRA**<br>**SEP IRA** | The withdrawals are subject to ordinary income tax<br>Required Minimum Distributions must be taken beginning by April 1 of the year following the year in which you turn age 73 (or age 72 if you reach age 72 before January 1, 2023). A 25% tax penalty may apply to non-distributed Required Minimum Distribution amounts |
| **401(k)**<br>**Safe Harbor 401(k)** | The withdrawals are subject to ordinary income tax<br>Required Minimum Distributions must be taken beginning by April 1 of the year following the year in which you turn age 73 (or age 72 if you reach age 72 before January 1, 2023) or of the year you terminate employment (if later). Special rules apply to 5% owners. A 25% tax penalty may apply to non-distributed Required Minimum Distribution amounts. |
| **Roth 401(k)** | The designated Roth withdrawals are tax free and penalty free if the Roth account is five years old. If the account hasn't been established for at least five years then the "growth" (earnings) will be taxed as ordinary income.<br>Required Minimum Distributions must be taken beginning by April 1 of the year following the year in which you turn age 73 (or age 72 if you reach age 72 before January 1, 2023) or of the year you terminate employment (if later). Special rules apply to 5% owners. A 25% tax penalty may apply to non-distributed Required Minimum Distribution amounts. |

2024 Guidelines

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| **Rollovers[6]** | |
| **SIMPLE IRA** | Within first two years of initial participation, rollover must be to another SIMPLE IRA<br>After first two years of participation, can be transferred, penalty-free, to a Traditional IRA (not just a SIMPLE IRA) including in a tax-free trustee-to-trustee transfer or to another qualified employer-sponsored plan, a 403(b) account or a government-sponsored 457(b) plan that accepts rollovers<br>Rollovers to Roth IRAs are permitted, subject to normal rules applicable to conversion of Traditional IRAs to Roth IRAs and income inclusion for pre-tax amounts |
| **SEP IRA** | To and from a Traditional IRA[6]<br>To and from a SIMPLE IRA at any time more than two years after establishment of the SIMPLE IRA<br>To and from a qualified employer-sponsored plan, a 403(b) or a government-sponsored 457(b) plan that accepts rollovers<br>Rollovers to Roth IRAs are permitted, subject to normal rules applicable to conversion of Traditional IRAs to Roth IRAs and income inclusion for pre-tax amounts |
| **401(k)** | To and from a Traditional IRA[6]<br>To and from a SIMPLE IRA at any time more than two years after establishment of the SIMPLE IRA<br>To and from qualified employer-sponsored plan, a 403(b) or a government-sponsored 457(b) plan<br>Rollovers to Roth IRAs are permitted, subject to normal rules applicable to conversion of Traditional IRAs to Roth IRAs and income inclusion for pre-tax amounts<br>Rollovers from pre-tax elective deferral to Roth accounts within the plan are permitted |
| **Roth 401(k)** | Designated Roth amounts may be rolled into the individual's Roth IRA or directly rolled over into the individual's designated Roth account in a 401(k), 403 (b) plan or a government sponsored 457(b) plan<br>Caution should be used when rolling this over as this may affect the five-year qualification period for rolled over amounts<br>Rollovers from pre-tax elective deferral to Roth accounts within the plan are permitted |
| **Safe Harbor 401(k)** | To and from a Traditional IRA[6]<br>To and from a SIMPLE IRA at any time more than two years after establishment of the SIMPLE IRA<br>To and from qualified employer-sponsored plan, a 403(b) or a government-sponsored 457(b) plan<br>Rollovers to Roth IRA are permitted, subject to normal rules applicable to conversion of Traditional IRAs to Roth IRAs and income inclusion for pre-tax amounts<br>Rollovers from pre-tax elective deferral to Roth accounts within the plan are permitted |
| **Compliance Tests** | |
| **SIMPLE IRA** | Individual contribution limits |
| **SEP IRA** | Top-Heavy<br>415 limits[7]<br>Nondiscrimination testing of SARSEP employee pre-tax contributions |
| **401(k)**<br>**Roth 401(k)** | Top-Heavy<br>ADP/ACP<br>410(b) coverage tests<br>415 limits[7]<br>401(a)(4) (to test for discrimination in employer contributions)<br>414(s) testing (to test for discrimination in compensation definition)<br>402(g)/401(a)(30) (elective deferral limit) |
| **Safe Harbor 401(k)** | No ADP, ACP or top-heavy (if operated within certain parameters).  Plans that also provide for after-tax employee contributions or matching contributions that are not covered by safe harbor rules must also be tested.<br>410(b) coverage tests<br>415 limits[7]<br>401(a)(4) (to test for discrimination in employer contributions)<br>414(s) testing (to test for discrimination in compensation definition)<br>402(g)/401(a)(30) (elective deferral limit) |

# 401(k)s and Business IRAs: At-A-Glance Guide

Federated Hermes

2024 Guidelines

| Reporting and Disclosure Requirements | |
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| **SIMPLE IRA** | 60-day notice of right to participate or change election (annually). For new hires, this generally must be provided on the date of hire.<br>Summary description at the plan's inception, when employees join the plan, and annually thereafter<br>Written notice that participant's account balance can be transferred without cost or penalty if the employer uses a designated financial institution<br>Notification of decision to make nonelective or reduced matching contributions and the amount of contributions |
| **SEP IRA** | Form 5500 Annual Reporting generally not required if Form 5305-SEP and specified summary information and annual notice of contributions provided to participants |
| **401(k)**<br>**Roth 401(k)** | Participants must receive a Summary Plan Description at time of eligibility, a summary of material modifications describing amendments, and periodic updated Summary Plan Descriptions<br>Summary Annual Report<br>Annual disclosure of fees and expenses and investment funds<br>Quarterly participant account statements<br>Quarterly statements disclosing administrative and individual account expenses<br>Performance data, benchmarks and other information regarding plan investment options<br>Participants must receive other notices depending on the features of the plan<br>Form 5500 Annual Reporting required |
| **Safe Harbor 401(k)** | Participants must receive a safe harbor notice between 30 and 90 days before the beginning of each plan year<br>Participants must receive a Summary Plan Description at time of eligibility, a summary of material modifications describing amendments, and periodic updated Summary Plan Descriptions<br>Summary Annual Report<br>Annual disclosure of fees and expenses and investment funds<br>Quarterly participant account statements<br>Quarterly statements disclosing administrative and individual account expenses<br>Performance data, benchmarks and other information regarding plan investment options<br>Participants must receive other notices depending on the features of the plan<br>Form 5500 Annual Reporting required |

1 Employee contributions are discretionary.

2 Amount shown is for 2024; indexed for inflation after 2024.

3 Federal tax is deferred. The ability to defer state tax on salary reduction contributions varies by state. Consult your tax advisor for more information.

4 Effective for taxable years beginning after December 31, 2022, employer and employee SEP and SIMPLE IRA contributions may, at the employee's election, be made on a Roth basis.

5 Employees may make pre-tax salary reduction contributions to a salary reduction SEP (SARSEP) IRA established before January 1, 1997. Employees may make regular, after-tax contributions to a SEP IRA, which may or may not be deductible, in accordance with the Traditional IRA contribution rules and limits.

6 Significant tax benefits may be lost by rolling over appreciated securities to an IRA.

7 The client should review these issues with their tax counsel. For an explanation of 415 limits, visit the IRS web site at www.irs.gov.

8 For plan years beginning after 2023, employee contributions may be increased by 10%, either automatically if the eligible employer has fewer than 25 employees, or if the eligible employer makes an election for the increased limits to apply (which requires higher matching or non-elective contributions).

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Federated Securities Corp.