RETIREMENT PLAN TYPES

A high level overview of various retirement plan options

Choosing the right retirement plan can feel overwhelming. There's a lot of jargon, a lot of options, and no shortage of opinions — which can make it hard to know where to start.

This guide is meant to get you oriented. It provides a high-level overview of common plan types, what they're generally used for, and how they differ from one another. From there, EGPS can help you dig into the details, understand the trade-offs, and decide what actually makes sense for each specific situation. Think of this as the starting point — we'll help with the rest.

SIMPLE IRA

Savings Incentive Match Plan for Employees (SIMPLE) IRAs are streamlined retirement plans available to employers with 100 or fewer employees who do not maintain another qualified plan. They allow employee deferrals and require employer contributions (either matching or a fixed nonelective contribution). SIMPLE plans are easier to administer than 401(k)s, but offer lower contribution limits and less design flexibility.

Key differentiators: Lower administrative burden, mandatory employer contribution, limited flexibility, designed for smaller employers.

SEP IRA

Simplified Employee Pension (SEP) IRAs are employer-funded retirement arrangements commonly used by small businesses and self-employed individuals. Only the employer contributes, and contributions must generally be allocated uniformly as a percentage of compensation to eligible employees.

Key differentiators: Employer-only contributions, simple administration, limited design flexibility, uniform allocation requirement.

401(k) PLANS WITH PROFIT SHARING

A 401(k) with profit sharing is a flexible, employer-sponsored retirement plan that allows employees to defer a portion of their compensation on a pre-tax or Roth basis, often paired with employer matching and discretionary profit sharing contributions. Employers can tailor contribution formulas to reward performance, tenure, or ownership, while employees benefit from tax advantaged savings and participant-directed investments. This plan type is popular due to its scalability, familiarity, and ability to balance broad employee participation with targeted employer contributions.

Key differentiators: Flexibility in employer contributions, employee deferrals, widely understood, strong employee engagement tool.

PREVAILING WAGE/DAVIS-BACON PLANS

Prevailing wage retirement plan designs are typically an added feature layered onto an existing qualified plan, most commonly a 401(k). They are used by employers working on government-funded construction projects subject to Davis-Bacon or similar laws.

Instead of paying required fringe benefits in cash wages or other benefits, employers may fund those amounts into a qualified retirement plan to recognize tax savings. While required fringe amounts are determined by the project, all contributions remain subject to the standard IRS limits and annual COLA adjustments applicable to the underlying plan type.

Key differentiators: Compliance-driven design, layered onto an existing plan, satisfies project fringe requirements, subject to standard qualified plan limits.

403(b) PLANS

403(b) plans are retirement plans for employees of public schools, universities, churches, and 501(c)(3) non-profit organizations. They function similarly to 401(k) plans, but often feature different investment structures and compliance considerations. Many organizations use 403(b) plans to provide accessible, tax-advantaged retirement savings while meeting the needs of mission-driven workforces.

Key differentiators: Non-profit and public sector focus, special catch-up provisions may apply, limited compliance testing requirements, historically annuity-based investments.

DEFINED BENEFIT PLANS

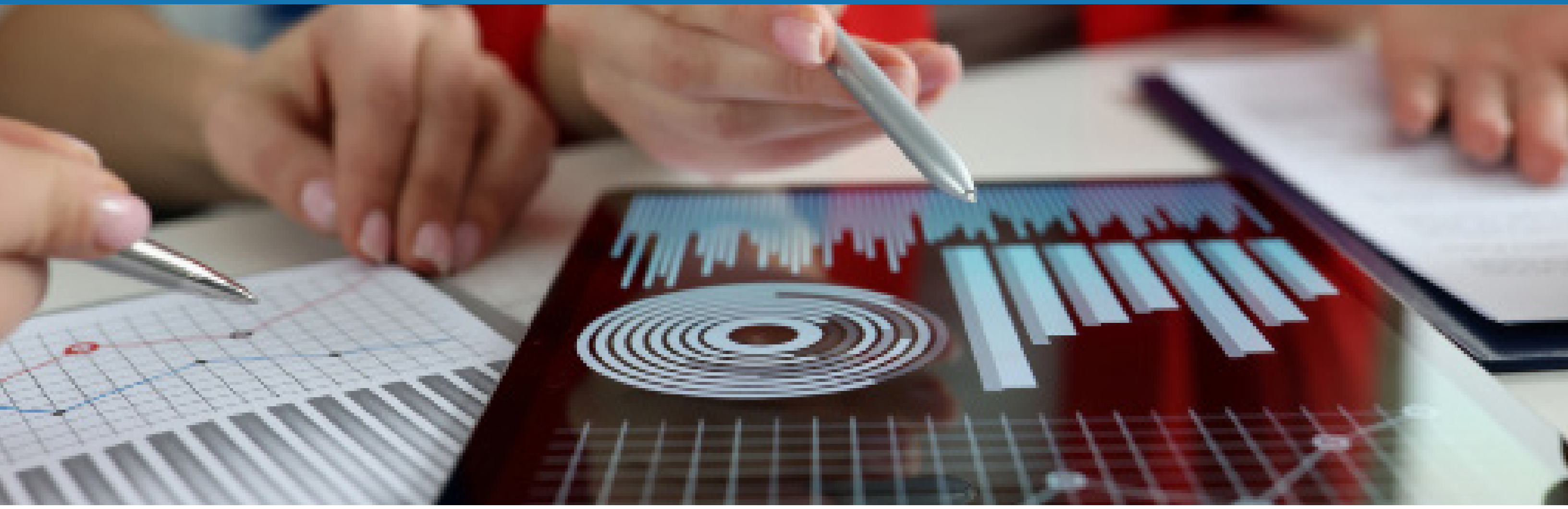
A defined benefit plan promises a specific benefit at retirement, typically expressed as a monthly annuity based on compensation and years of service. Contributions are actuarially determined and generally higher than defined contribution plans, making them especially attractive for owners or highly compensated employees seeking large, tax-deductible contributions. While powerful, these plans require long-term commitment and involve more complexity and funding responsibility for the employer.

Key differentiators: Highest potential contributions, guaranteed benefit formula, employer bears investment and funding risk.

CASH BALANCE PLANS

A cash balance plan is a type of defined benefit plan that looks and feels like a defined contribution plan to participants, but is technically a pension plan. Participants receive a hypothetical account balance that grows with pay credits and interest. For employers, cash balance plans allow for substantially higher tax-deductible contributions than a 401(k), while being easier for participants to understand than traditional pensions. They are often paired with a 401(k)/profit sharing plan.

Key differentiators: High contribution limits, familiar "account balance" reporting.



NONQUALIFIED PLANS (409A, 457(f))

Nonqualified deferred compensation plans are designed for executives and key employees and are not subject to the same contribution limits or nondiscrimination rules as qualified plans. Section 409A plans allow compensation deferrals with strict election and distribution timing rules. These are the classic corporate golden parachutes, golden handcuffs, pick your high bar metaphor. They may also be established to mirror a 401(k) plan structure if the highly compensated employees are limited in benefits due to nondiscrimination testing. Section 457(f) plans are similar, and also subject to 409A requirements, but apply to non-profit organizations and require taxation when there is no longer a substantial risk of forfeiture.

Unlike qualified plans, assets remain subject to the employer's creditors, meaning participants assume forfeiture and employer solvency risk.

Key differentiators: No statutory contribution caps, selective participation, deferred taxation, forfeiture risk to participant, and powerful "golden handcuff" design potential.

457(b)

457(b) plans are a different type of nonqualified deferred compensation plan available primarily to governmental employers and tax-exempt organizations. They allow elective deferrals similar to a 401(k), but operate under a separate section of the Internal Revenue Code with different distribution rules and coordination considerations.

Governmental 457(b) plans hold assets in trust for participants and can be offered broadly, while non-governmental 457(b) plans are limited to select "top hat" employees and remain subject to employer solvency risk. The rules vary significantly depending on whether the sponsor is a governmental or a tax-exempt entity.

Key differentiators: Separate statutory framework, governmental and tax-exempt focus, distinct distribution rules.

MEPs/PEPs (AGGREGATED PLANS)

Multiple Employer Plans (MEPs) and Pooled Employer Plans (PEPs) allow unrelated, or minimally related, employers to participate in a single retirement plan. A MEP or PEP can be a 401(k) plan or a 403(b) plan. Each employer must satisfy coverage and nondiscrimination requirements a single employer plan but can combine assets in one trust, with one 5500 filed for the plan.

By combining benefits in one plan, a MEP or PEP aims to reduce administrative burden, fiduciary responsibility, and overall costs. PEPs, introduced under the SECURE Act, centralize fiduciary duties under a pooled plan provider, making them particularly attractive for smaller employers seeking simplicity and scale.

Key differentiators: Shared administration services, centralized fiduciary structure, economies of scale.

	SIMPLE	SEP	401(k) + Profit Sharing	Prevailing Wage	403(b)	Defined Benefit	Cash Balance	Nonqualified (409A/ 457(f))	457(b)	MEP/PEP
Primary Purpose	Simple small-employer savings	Employer-funded small business savings	Employee savings & employer flexibility	Satisfy fringe benefit requirements within qualified plan	Non-profit employee savings	Guaranteed retirement benefit	High contributions with clearer presentation	Executive deferral, incentive & retention tool	Governmental /tax-exempt deferral	Shared access to existing plan types
Typical Participants	Employers ≤100 employees	Small businesses & self-employed	Broad employee base	Construction workforce	Non-profit/ public employees	Owners & long-tenured staff	May favor owners, but subject to minimum participation requirements	Select executives & key employees	Governmental or tax-exempt employees	Varies by adopting employer size and structure
Contribution Limits	IRS-limited with annual COLA adjustments ($17,000 for employee deferrals in 2026*)	IRS-limited with annual COLA adjustments ($72,000 employer contribution limit in 2026)	IRS-limited with annual COLA adjustments ($24,500 for employee deferrals in 2026*)	IRS-limited (required fringe rates project-determined; subject to COLA limits based on plan type)	IRS-limited with annual COLA adjustments ($24,500 for employee deferrals in 2026*)	Actuarially determined with annual IRS COLA adjustments (DB plan annual benefit limit $290,000 for 2026)	Actuarially determined with annual IRS COLA adjustments (DB plan annual benefit limit $290,000 for 2026)	No statutory cap	Statutory deferral limits with annual IRS COLA adjustments ($24,500 for employee deferrals in 2026*)	IRS-limited with annual COLA adjustments (based on underlying plan type)
Employer Funding Risk	Moderate (required employer contribution)	Variable (employer-funded)	Low	Low	Low	High	High	N/A (forfeiture risk to participant)	Varies by structure	Low
Administrative Complexity	Low	Low	Moderate	Moderate	Moderate	High	High	High	Moderate to High	Low
Best For	Small employers wanting simplicity	Owner-only businesses	Businesses desiring larger, and more flexible contributions	Government contractors	Mission-based organizations	High earners	High earners seeking structured accumulation	Supplemental retirement option for executives	Governmental & tax-exempt employers	Employers seeking scale efficiencies

These plan types allow for additional catch up contributions for employees ages 50 and older (not shown).

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