

## Focus: Retirement plan services

Know your retirement plan options



**CAPITAL  
GROUP®**

**AMERICAN  
FUNDS®**



A retirement plan could be  
big for your small business

Restaurants

Landscaping businesses

Bookstores

Design firms

Medical practices

Laundromats

Bakeries

Legal firms

Auto repair shops

Accounting services

Retail stores

Construction companies

Physical therapy offices

Real estate firms

Supermarkets

Bowling centers

Bed-and-breakfast inns

Locksmiths

Architecture firms

Diet centers

Funeral homes

Wedding consultants

Fitness centers

Printers

You may be self-employed.  
Or have a handful of people or more working for you.  
Either way, you're in good company.

**Yours is one of more than 15 million small businesses  
in the United States.\***

15 million

Make it your business to plan for  
retirement. Discover the benefits of  
the right plan for your company

\* Number of U.S. businesses with 99 or fewer employees. North American Industry Classification System, October 2020, <https://www.naics.com/business-lists/counts-by-company-size/>

**Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.**

# 89%

of all companies  
in America are  
small businesses!<sup>1</sup>

## **As a business owner, you must effectively:**

- Run your company
- Manage expenses
- Understand your industry or niche market
- Manage employees (if you have any)
- Market to your customers

## **But what about saving for retirement?**

Small-business owners that expect the sale of their business to provide a major source of retirement income could fall short.

“Few people get as much for their business as they believe they should... Don't rely on the sale of your business to fund all of your retirement.”<sup>2</sup>

Unfortunately, many small-business owners find they can't sell when they want to – or need to. Some discover that the market value of their business doesn't match their expectations. While succession planning makes sense, a good retirement plan can help you pursue your retirement goals.

<sup>1</sup> Number of U.S. businesses with 99 or fewer employees. North American Industry Classification System, October 2020, [naics.com/business-lists/counts-by-company-size/](https://naics.com/business-lists/counts-by-company-size/)

<sup>2</sup> How much money do business owners need to retire? Business Know-How, November 20, 2019

# Ready to start a retirement plan?

34%

of small-business owners have not saved anything for retirement.<sup>1</sup>

58%

of small-business owners offer no retirement plan to help themselves and their employees prepare for the future.<sup>2</sup>

## So what's holding you back?

### Do I have enough employees?

There are plans for businesses of every size, whether you have three employees or 300 – even if you don't have any employees.

### Aren't these plans expensive to offer?

A number of retirement plan solutions are more affordable than you might think. In some cases, your employees actually help pay for annual costs.

Small businesses may also qualify for federal tax credits as further incentive to establish a retirement plan. Ask your financial professional to learn more.

### What if the economy gets worse?

Many plans offer flexibility in how you run the plan. You may be able to adjust employer contributions, if any, according to your circumstances and profitability. In some cases, you may even be able to discontinue contributions at any time.

### What if I can't afford to contribute to my employees' accounts?

Not all small-business retirement plans require the employer to contribute money. For those that do, your contributions are tax-deductible.

### Isn't it complicated to set up and maintain?

Today's small-business plans are relatively easy to set up and operate. Some have no annual Internal Revenue Service (IRS) reporting requirements. So you can focus on what's really important – running your business.

<sup>1</sup> "Small business owners need a nudge to offer retirement plans," planadvisor.com, April 17, 2019

<sup>2</sup> "Just 4 in 10 small businesses offer retirement benefits, survey finds" LIMRA Research, January 18, 2019

## Consider the advantages.

### As an employer, a company retirement plan may help you:

- Save for your own retirement
- Receive tax credits and other incentives from the federal government
- Attract – and keep – better employees
- Realize increased worker productivity, especially if your plan is connected to company profits
- Deduct all employer contributions from current taxes

### Your employees (and you) may benefit because they can:

- Invest for the future
- Put away more money for retirement through most small-business plans than they might otherwise be able to save through an individual retirement account (IRA)
- Realize tax-deferred growth of investments
- Be more content (and therefore more motivated) with a benefits package that includes a company retirement plan
- Take advantage of the knowledge and experience of the financial professional associated with your plan

### Did you know?

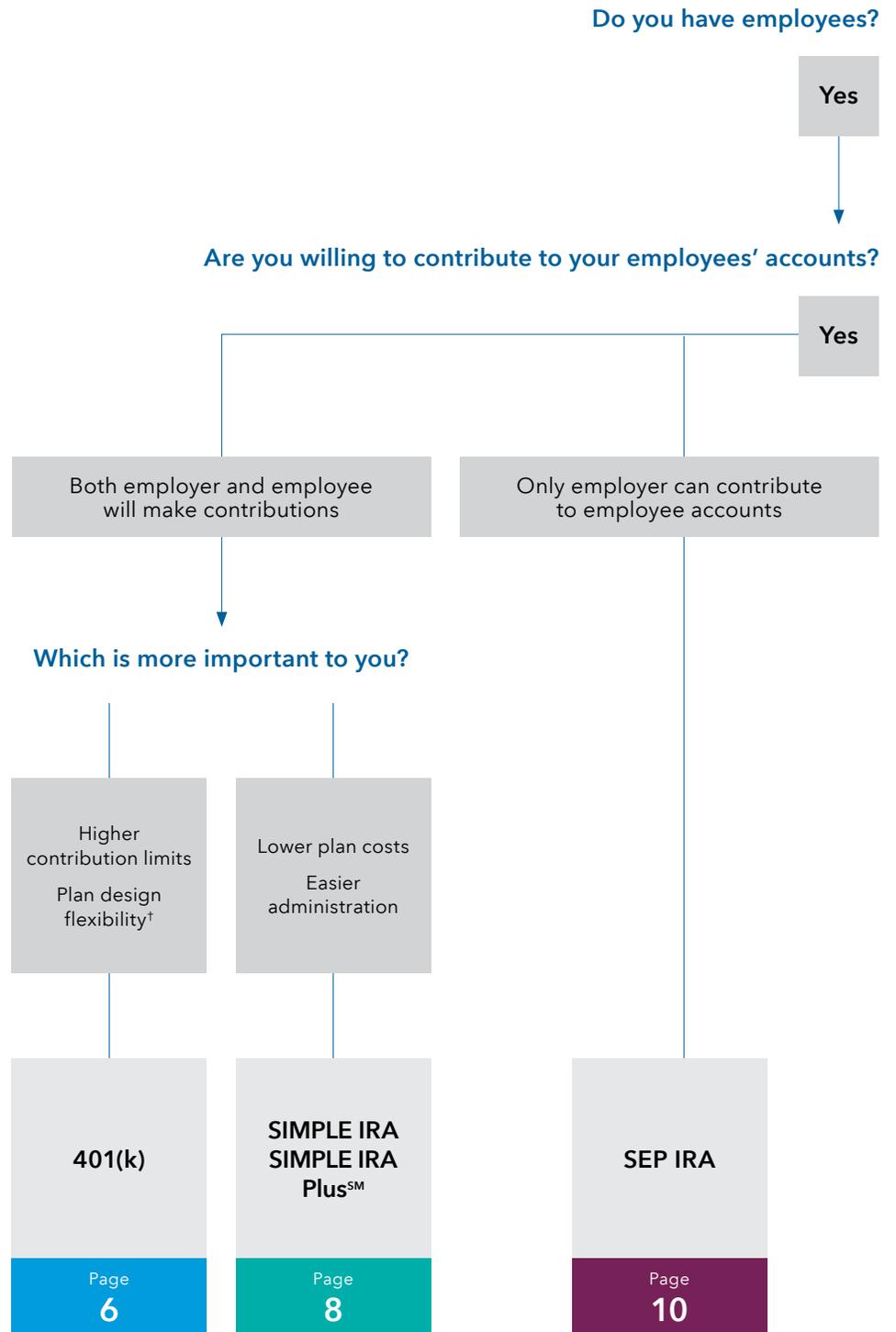
Some states and cities require, or are considering requiring, private-sector employers who don't offer workers a retirement plan to join a state-controlled program. Given the specific rules and restrictions of state plans, you may want to consider a traditional plan type when choosing the retirement plan that's best for your business.

# Which retirement plan is right for you?

Use this chart as a guide to identify one or more retirement plan solutions that may meet your needs.\*

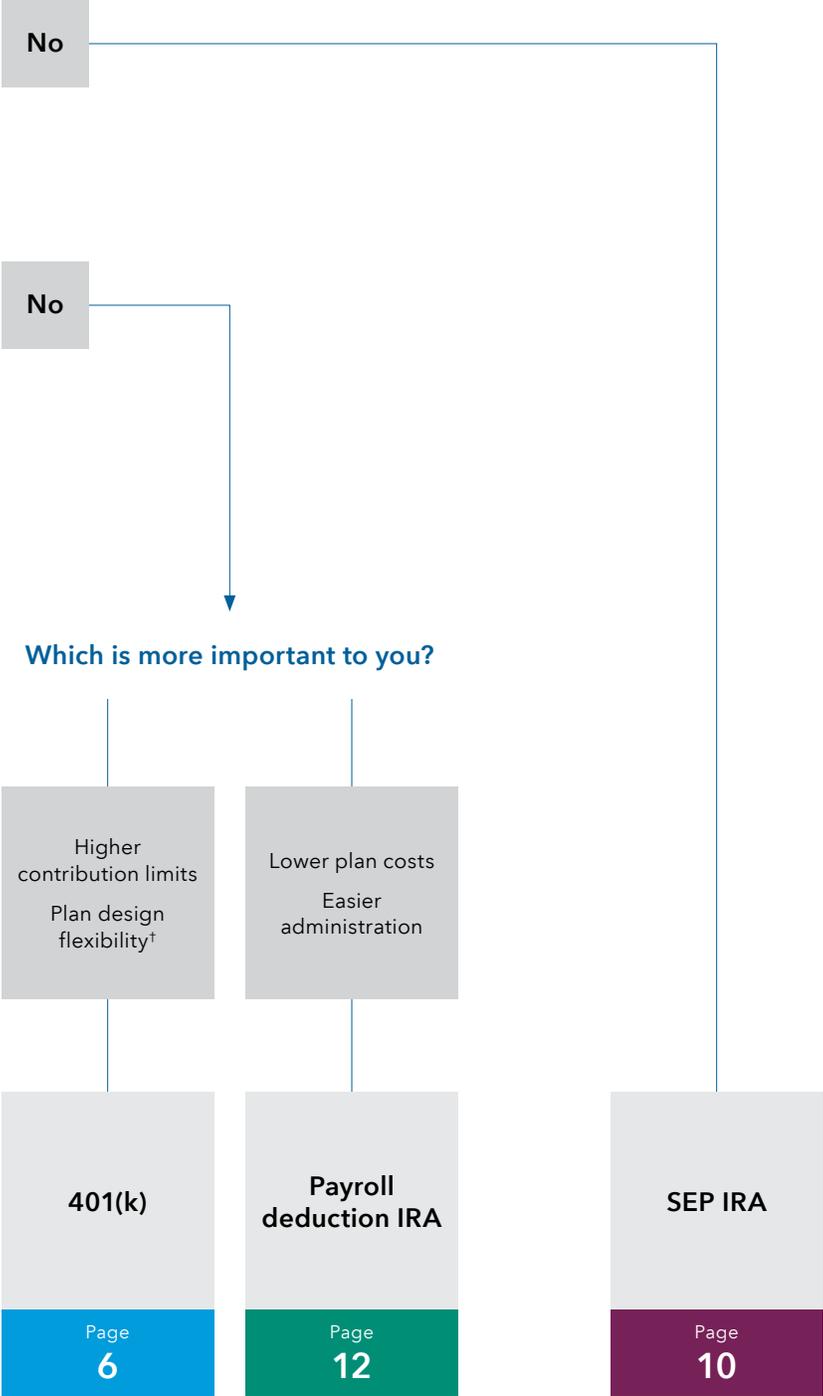
Simply answer the questions and follow the flow as directed. When you reach a plan type, you can turn to the page that corresponds to it and learn more about that option.

Or, for information on these retirement plans, visit [capitalgroup.com/smallbiz](https://capitalgroup.com/smallbiz).



\* Chart does not include every kind of retirement plan available to employers.

† Optional features, loans, vesting, etc.



## Next steps

Consult with your financial professional and/or tax advisor. While this brochure can give you an idea of which plan type may be right for you, these trained professionals will be able to confirm your findings or direct you to another plan that's better aligned with your specific needs and goals, and then assist you in setting up the plan.

# 401(k) plans

Available to:

**Any employer**

(except government entities)

“For new small business owners, sponsoring a 401(k) retirement plan for themselves and their employees may seem too complex and cost-prohibitive to even consider. However, [the SECURE Act] incentivizes employers to jump on board with this highly valued benefit offering.”\*

– U.S. Chamber of Commerce,  
March 16, 2020

\* The SECURE Act (“Setting Every Community Up for Retirement Enhancement”) increased the maximum tax credit small business owners may receive for the first three years of the plan – now up to \$5,000. In addition, a new credit is available to small business owners that for the first time, add an auto-enrollment feature. And that credit is a flat \$500 annually for up to three years.



Hypothetical case study†

## A 401(k) plan really adds up for a CPA firm

### The situation

The partners of certified public accountant (CPA) firm Foster, Dickson and Mann (FD&M) wanted to establish a program to save for retirement. At the same time, they wanted to address high turnover among the company’s junior associates and support staff as the practice hoped to expand its presence in the real estate market.

### The solution

FD&M established a 401(k) plan with a safe harbor match feature. As a result, the plan is not subject to nondiscrimination tests as long as FD&M makes the necessary contributions and provides an annual notice to employees. Without the safe harbor, employee contributions by the higher paid partners would have been limited by the contributions of the rest of the staff, who earn less. The safe harbor enabled the partners to maximize their savings in the plan – with contributions that were far more than would be allowed if they were to invest in an IRA – and a mandatory employer match served to encourage employees to stay with the firm.

† Not an actual firm.

## Advantages of a 401(k) plan

### Employer:

- Participants contribute to their own accounts
- Employer contributions (including a match), if any, are deductible as business expenses
- Flexible program designs to suit employer needs
- Annual nondiscrimination testing is not required for some safe harbor 401(k) plans

### Participants:

- High contribution limits
- Loans may be available

A 401(k) may not be appropriate for companies looking for a plan with little or no cost and/or IRS reporting requirements.

401(k) plans – a closer look							
<b>Deadline to establish</b>	A plan with a 401(k) feature must be adopted by the last day of the fiscal (plan) year; however, employee contributions may not be made prior to the plan adoption date						
<b>Contributions</b>	By employee and, if desired, by employer on a discretionary basis or through an optional employer match						
<b>Contribution limits</b>	<table border="0"> <tr> <td>Maximum participant contribution limit:</td> <td style="text-align: right;">\$19,500</td> </tr> <tr> <td>Additional catch-up contribution: (for those age 50 and older)</td> <td style="text-align: right;">\$ 6,500</td> </tr> <tr> <td><b>Total contributions:</b> Maximum participant and employer contributions combined. Lesser of 100% of participant's compensation or \$58,000 (\$64,500 with age-based catch-up contributions).</td> <td style="text-align: right;"><b>\$58,000/\$64,500</b></td> </tr> </table>	Maximum participant contribution limit:	\$19,500	Additional catch-up contribution: (for those age 50 and older)	\$ 6,500	<b>Total contributions:</b> Maximum participant and employer contributions combined. Lesser of 100% of participant's compensation or \$58,000 (\$64,500 with age-based catch-up contributions).	<b>\$58,000/\$64,500</b>
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Additional catch-up contribution: (for those age 50 and older)	\$ 6,500						
<b>Total contributions:</b> Maximum participant and employer contributions combined. Lesser of 100% of participant's compensation or \$58,000 (\$64,500 with age-based catch-up contributions).	<b>\$58,000/\$64,500</b>						
<b>Investment decisions</b>	Employee						
<b>Vesting</b>	Employer contributions may be subject to a schedule						
<b>Ongoing maintenance</b>	Annual Form 5500 filing and, depending on the plan, various annual notices may be required						
<b>Annual nondiscrimination testing</b>	Required (unless there is a safe harbor feature*)						

\* If the plan meets safe harbor requirements, it is deemed to satisfy the Actual Deferral Percentage (ADP) and Actual Contribution Percentage (ACP) tests and may qualify for top-heavy exemption.

# SIMPLE IRA and SIMPLE IRA Plus plans

Available to:

**Generally, any employer with 100 or fewer employees**

“A SIMPLE IRA (Savings Incentive Match Plan for Employees) allows employees and employers to contribute to traditional IRAs set up for employees. It is ideally suited as a startup retirement savings plan for small employers not currently sponsoring a retirement plan.”

– Internal Revenue Service, January 2020



Hypothetical case study\*

## Firm has designs for a better retirement

### The situation

Entrepreneurs Lisa and Daniel faced financial challenges when they first started their graphic design firm. Now, with a few regular clients on the books and three full-time designers to help handle the workload, revenue has been steady. The company is also on the verge of signing a contract with an important new client that could help bring the company to the next level. But the business owners are cautiously optimistic – worried that they could lose their best designers to other job offers at such a critical time.

### The solution

A financial professional suggested that a retirement plan might help Lisa and Daniel keep the talent they've acquired ... and attract new designers when the time is right. He recommended a SIMPLE IRA so the owners could focus on the challenges of their business, not on managing their retirement plan. They decided to offer a 3% employer match as a way to encourage their staff to save in the plan.

\* Not an actual firm.

## Advantages of a SIMPLE IRA or a SIMPLE IRA Plus plan

### Employer:

- Low cost
- Employees contribute to their own accounts
- Employer match is a tax-deductible business expense
- Easy setup and administration
- No complex IRS reporting requirements

### Participants:

- Contribution limits higher than with personal IRAs
- Employer makes a contribution to each participant's account
- Immediate vesting (money in employees' accounts is theirs to keep)

A SIMPLE IRA or SIMPLE IRA Plus plan may not be appropriate for employers who do not want to match their employees' contributions or for those looking for a loan option in the plan.

### Additional advantages of a SIMPLE IRA Plus plan

- 401(k)-style experience
- A qualified default investment alternative (QDIA) available
- Custom plan investment menus
- Select online enrollment capabilities

SIMPLE IRAs – a closer look							
<b>Deadline to establish</b>	Between January 1 and October 1 of current year, unless it's a plan for a new business that was established after October 1 of the SIMPLE IRA setup year						
<b>Contributions</b>	<p>Pretax contributions by employees plus a mandatory employer contribution of either:</p> <ul style="list-style-type: none"> <li>• Dollar-for-dollar match of up to 3% of compensation (in tougher times, you may reduce the match to as little as 1%, but for no more than two of every five consecutive years)</li> </ul> <p><b>or</b></p> <ul style="list-style-type: none"> <li>• Across-the-board 2% of compensation for all eligible employees</li> </ul>						
<b>Contribution limits</b>	<table border="0"> <tr> <td>Annual maximum participant contribution limit:</td> <td style="text-align: right;">\$13,500</td> </tr> <tr> <td>Additional catch-up contribution: (for those age 50 and older)</td> <td style="text-align: right;">\$ 3,000</td> </tr> <tr> <td><b>Total contributions:</b></td> <td style="text-align: right;"><b>\$27,000/\$33,000<sup>†</sup></b></td> </tr> </table> <p>Maximum participant and employer contributions combined; \$27,000 subject to 3% employer match limit or 100% of participant's compensation (\$33,000 with age-based catch-up contributions and employer match).</p>	Annual maximum participant contribution limit:	\$13,500	Additional catch-up contribution: (for those age 50 and older)	\$ 3,000	<b>Total contributions:</b>	<b>\$27,000/\$33,000<sup>†</sup></b>
Annual maximum participant contribution limit:	\$13,500						
Additional catch-up contribution: (for those age 50 and older)	\$ 3,000						
<b>Total contributions:</b>	<b>\$27,000/\$33,000<sup>†</sup></b>						
<b>Investment decisions</b>	Made by employee						
<b>Vesting</b>	Immediate						
<b>Ongoing maintenance</b>	Annual notice to eligible employees (required)						
<b>Annual nondiscrimination testing</b>	Not required						

<sup>†</sup> To achieve the maximum contribution amount, participants must earn at least \$450,000 annually (\$550,000 when the maximum catch-up amount is included).

# SEP IRA plans

Available to:

**Any employer or sole proprietor**

“A Simplified Employee Pension IRA, or SEP IRA for short, is a good option for self-employed workers and small-business owners who want an easy and inexpensive retirement plan. A SEP IRA is also generous, allowing retirement savers to put away much more than they could with some other retirement accounts.”

– Kiplinger, June 2019



Hypothetical case study\*

## New plan brings a smile to dental practice

### The situation

Mindy has been a successful dentist for several years, with the help of two part-time dental assistants and two administrative employees. Next year, she would like to add a dental hygienist to expand the services her practice can offer patients. During an annual meeting to discuss finances, Mindy's tax advisor suggested that she look into ways to reduce current taxes.

### The solution

Mindy turned to her financial professional, who recommended a SEP IRA – a retirement plan that could help attract a good hygienist and enable her to contribute an equal percentage of each eligible employee's compensation (including part-timers) to their retirement plan accounts. Given her income level, Mindy can save far more money in a SEP account than she'd be able to in a SIMPLE IRA. Her contributions would be tax-deductible and, if she establishes the SEP account this year before filing her extended October 15 return, she can still generate a large deduction on last year's taxes. Best of all, employer contributions are discretionary, so Mindy could contribute less – or nothing at all – in years when business is lean.

\* Not an actual firm.

## Advantages of a SEP IRA plan

### Employer:

- Low cost
- Employer contributions are deductible business expenses
- Flexible contribution limits; you decide how much to contribute
- Annual contributions are not required
- Easy setup and administration
- Minimal paperwork; no complex IRS reporting requirements
- Ability to discontinue the plan at any time
- Limited fiduciary responsibility\*

### Participants:

- Employer contributes to each participant's account
- Immediate vesting (money in employees' accounts is theirs to keep)

\* Employers have limited liability since participants make their own investment decisions.

A SEP IRA may not be appropriate for employers who do not want to contribute to their employees' accounts or for those looking for a loan option in the plan.

SEP IRAs – a closer look	
<b>Deadline to establish</b>	By employer's tax-filing deadline (including extensions)
<b>Contributions</b>	By employer only on a discretionary basis
<b>Contribution limits</b>	Maximum employer contribution limit: lesser of 25% of participant's compensation <sup>†</sup> or \$58,000
<b>Investment decisions</b>	Employee
<b>Vesting</b>	Immediate
<b>Ongoing maintenance</b>	No annual filings or annual disclosures required
<b>Annual nondiscrimination testing</b>	Top-heavy testing applies

<sup>†</sup>The 2021 compensation limit is \$290,000 when determining maximum contributions.

# Payroll deduction IRAs

Available to:

**Any employer or sole proprietor**

“Want to help your employees save for retirement but don’t want the responsibility of an employee benefit plan? ... A payroll deduction individual retirement account (IRA) is an easy way for businesses to give employees an opportunity to save for retirement.”

– “Payroll deduction IRAs for small businesses,” U.S. Department of Labor.



Hypothetical case study\*

## Employees get their “just desserts”

### The situation

Sophia and Chiara share a passion for cooking. They opened a restaurant, serving their favorite family recipes. Like many small businesses, they’ve had good years and lean years. A small, close-knit staff has been on the payroll for some time now, and the owners wish they could afford to do something for these employees who have become like family. At the same time, they’d like to put some money away for their own retirement.

### The solution

A financial professional suggested a way to help them reward the staff they’ve come to know and trust. He explained that Sophia and Chiara didn’t need to be retirement plan experts to start a payroll deduction IRA program. It wouldn’t cost anything to set up, and the employees themselves would fund their own accounts from there.

\* Not an actual firm.

## Advantages of a payroll deduction IRA program

### Employer:

- Low cost
- Employee contributions are automatically deducted from their paychecks and deposited in their own accounts
- Easy setup and administration
- Simplified IRS reporting requirements
- Limited fiduciary responsibility\*

### Participants:

- Choice of IRA – traditional or Roth
- Control – employees decide how much and how often to contribute
- IRAs may be funded for a nonworking spouse
- Immediate vesting (money in employees' accounts is theirs to keep)
- Ability to make withdrawals at any time, subject to tax and possible penalties

\* Employers have limited liability since participants control their own investment choices.

A payroll deduction IRA may not be appropriate for employers who want to make larger annual investments toward their own retirement. Program also has no loan option.

Payroll deduction IRAs – a closer look					
<b>Deadline to establish</b>	Can be started anytime				
<b>Contributions</b>	By employees only				
<b>Contribution limits</b>	<table border="0"> <tr> <td>Maximum participant contribution:</td> <td style="text-align: right;">\$6,000</td> </tr> <tr> <td>Additional catch-up contribution: (for those age 50 and older)</td> <td style="text-align: right;">\$1,000</td> </tr> </table>	Maximum participant contribution:	\$6,000	Additional catch-up contribution: (for those age 50 and older)	\$1,000
Maximum participant contribution:	\$6,000				
Additional catch-up contribution: (for those age 50 and older)	\$1,000				
<b>Investment decisions</b>	Employee				
<b>Vesting</b>	Immediate				
<b>Ongoing maintenance</b>	No annual filings or annual disclosures are required				
<b>Annual nondiscrimination testing</b>	Not required				

# The Capital Advantage<sup>®</sup>

Since 1931, Capital Group, home of American Funds, has helped investors pursue long-term investment success. Our consistent approach – in combination with The Capital System<sup>SM</sup> – has resulted in superior outcomes.

## Aligned with investor success

We base our decisions on a long-term perspective, which we believe aligns our goals with the interests of our clients. Our portfolio managers average 27 years of investment industry experience, including 21 years at our company, reflecting a career commitment to our long-term approach.<sup>1</sup>

## The Capital System

The Capital System combines individual accountability with teamwork. Funds using The Capital System are divided into portions that are managed independently by investment professionals with diverse backgrounds, ages and investment approaches. An extensive global research effort is the backbone of our system.

## American Funds' superior outcomes

Equity funds have beaten their Lipper peer indexes in 91% of 10-year periods and 98% of 20-year periods.<sup>2</sup> Fixed income funds have helped investors achieve diversification through attention to correlation between bonds and equities.<sup>3</sup> Fund management fees have been among the lowest in the industry.<sup>4</sup>

<sup>1</sup> Investment industry experience as of December 31, 2020.

<sup>2</sup> Based on Class F-2 share results for rolling periods through December 31, 2020. Periods covered are the shorter of the fund's lifetime or since the comparable Lipper index inception date (except Capital Income Builder and SMALLCAP World Fund, for which the Lipper average was used). Expenses differ for each share class, so results will vary.

<sup>3</sup> Based on Class F-2 share results as of December 31, 2020. Thirteen of the 17 fixed income American Funds that have been in existence for the three-year period showed a three-year correlation below 0.3. Standard & Poor's 500 Index was used as an equity market proxy. Correlation based on monthly total returns. Correlation is a statistical measure of how two securities move in relation to each other. A correlation ranges from -1 to 1. A positive correlation close to 1 implies that as one security moves, either up or down, the other security will move in "lockstep," in the same direction. A negative correlation close to -1 indicates that the securities have moved in the opposite direction.

<sup>4</sup> On average, our management fees were in the lowest quintile 66% of the time, based on the 20-year period ended December 31, 2020, versus comparable Lipper categories, excluding funds of funds.

Class F-2 shares were first offered on August 1, 2008. Class F-2 share results prior to the date of first sale are hypothetical based on results of the original share class of the fund without a sales charge, adjusted for typical estimated expenses. Results for certain funds with an inception date after August 1, 2008, also include hypothetical returns because those funds' Class F-2 shares sold after the funds' date of first offering. Visit [capitalgroup.com](http://capitalgroup.com) for more information on specific expense adjustments and the actual dates of first sale.

Although Class F-2 shares are not available for purchase by retirement plans, their results reflect the investment management experience of American Funds without retirement plan recordkeeping expenses. American Funds offers plan sponsors flexibility in how they pay for plan operating expenses (such as recordkeeping fees) through distinct retirement plan share classes.

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