

Retirement Plan Choices for Small Businesses

As a small-business owner, figuring out retirement choices can be a little intimidating. How do you pick the most appropriate retirement plan for your business as well as your employees?

There are a number of choices when creating retirement plan strategies for you and your employees. Here, we will review three of the most popular for small businesses: SIMPLE-IRAs, SEP-IRAs, and 401(k)s. Read on below to learn more about each type of retirement plan.

This article is for informational purposes only and is not a replacement for real-life advice, so make sure to consult your tax, legal, and accounting professionals before implementing or modifying a retirement plan.

SIMPLE-IRAs. SIMPLE stands for **S**avings **I**ncentive **M**atch **P**lan for **E**mployees. This is a traditional IRA that is set up for employees and allows both employees and employers to contribute. If you're an employer of a small business who needs to get started with a retirement plan, a SIMPLE-IRA may be for you. SIMPLE-IRA's provide some degree of flexibility in that employers can choose to either offer a matching contribution to their employees' retirement account or make nonelective contributions. In addition, employees can choose to make salary reduction contributions to their own retirement account. Some small business owners opt for a SIMPLE-IRA because they find the maintenance costs are lower compared with other plans.¹

Distributions from SIMPLE-IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 73, you must begin taking required minimum distributions.

For a business to use a SIMPLE-IRA, it typically must have fewer than 100 employees and cannot have any other retirement plans in place.¹

SEP-IRAs. SEP plans (also known as SEP-IRAs) are **S**implified **E**mployee **P**ension plans. Any business of any size can set up one of these types of retirement plans, including a self-employed business owner. Like the SIMPLE-IRA, this type of retirement plan may be an attractive choice for a business owner because a SEP-IRA does not have the start-up and operating costs of a conventional retirement plan. This is a type of retirement plan that is solely sponsored by the employer, and you must contribute the same percentage to each eligible employee. Employees are not able to add their own contributions. Unlike other types of retirement plans, contributions from the employer can be flexible from year to year, which can help businesses that have fluctuations in their cash flow.²

Much like SIMPLE-IRAs, SEP-IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 73, you must begin taking required minimum distributions.

401(k)s. 401(k) plans are funded by employee contributions, and in some cases, with employer contributions as well. In most circumstances, you must begin taking required minimum distributions from your 401(k) or other defined contribution plan in the year you turn 73. Withdrawals are taxed as ordinary income, and, if taken before age 59½, may be subject to a 10% federal income tax penalty.¹

1. IRS.gov, 2026

2. Investopedia.com, November 27, 2025

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