

Focus: Retirement plan services

Comparing retirement plans: 2026



**Choose a plan that meets
the needs of your employees
and your organization**

Retirement plan features

Terms in **purple** are defined in glossary

Small businesses

	SEP IRA	SIMPLE IRA	401(k)
Plan setup and operation			
Who can establish this plan type	Any employer	Any small-business employer (100 or fewer employees)	Any employer except government entities
Eligibility requirements	Any employee who has been employed in three of the last five years, is at least age 21 and has earned at least \$800	Any employee who has earned at least \$5,000 in any of the prior two years and is expected to earn at least \$5,000 in the current year	Generally, any employee who is at least age 21 and has completed a year of service, although statutory exclusions can apply
Deadline to establish	Tax-filing deadline of employer; plan year is typically calendar year	Between January 1 and October 1; plan year is always calendar year ¹	Before the last day of the fiscal (plan) year. However, participant deferrals cannot be made prior to the adoption date ²
Plan setup	IRAs must be established for all eligible employees	SIMPLE IRAs must be established for all eligible and/or participating employees	Qualified trust must be established (can be self-trusted)
Investment decisions	Participant	Participant	Participant
Ongoing maintenance	No annual filings or annual required disclosures from employer	Annual notice to eligible employees	Annual Form 5500 filings, annual notices for safe harbor contributions, QDIAs , automatic enrollment , as applicable
Nondiscrimination testing	Nondiscrimination testing not required; top-heavy rules apply	Plan is deemed to meet all nondiscrimination tests	Coverage, general nondiscrimination, ACP , ADP and top-heavy tests apply; if safe harbor requirements are met, plan is deemed to satisfy the ADP and ACP tests and may qualify for top-heavy exemption
Contributions			
Participant contributions (2026)	None, except for grandfathered SAR-SEPs (see IRS Publication 560)	<ul style="list-style-type: none"> • For plans with 25 or fewer employees, maximum employee contributions are \$18,100; with additional catch-up contributions³ (age 50+) of up to \$3,850 • For plans with 26+ employees, maximum employee contributions are \$17,000; with additional catch-up contributions³ (age 50+) of up to \$4,000. (Higher limits may apply; see footnote 4) • For employees age 60 to 63 only, a higher catch-up contribution limit of \$5,250 replaces the 50+ catch-up contribution limit described in the bullets above³ 	Up to \$24,500 Up to \$8,000 additional catch-up if age 50 or older ³ Up to \$11,250 additional catch-up if age 60–63 only (replaces the 50+ catch-up limit) ³
Employer contributions⁵	Discretionary; must be the same percentage for every employee	Mandatory ; either a dollar-for-dollar match of up to 3% of compensation, ^{4,6} or a nonelective contribution of 2% of compensation for all eligible employees. ⁴ Optional ; a nonelective contribution may be made to each eligible employee, in addition to mandatory employer contributions, in a uniform percentage up to 10% of compensation but not to exceed \$5,300.	Discretionary, unless safe harbor applies (refer to table on page 4)
After-tax contributions	Roth option may be available; check with the plan provider	Roth option may be available; check with the plan provider	Roth option available
Maximum contributions for 2026 (employer and employee)	Lesser of 25% of compensation or \$72,000	See above	Lesser of 100% of compensation or \$72,000 (not including catch-up contributions; see above)
Distributions			
Participant loans	No	No	Available
Access to contributions	<ul style="list-style-type: none"> • Distributions: immediate access • Vesting: 100% immediate 	<ul style="list-style-type: none"> • Distributions: immediate access • Vesting: 100% immediate 	<ul style="list-style-type: none"> • Distributions: restricted, subject to plan's terms • Vesting: 100% immediate for participant contributions; employer contributions subject to schedule, except as noted in the table on page 4
Benefit at retirement	Account balance	Account balance	Account balance

Footnotes/Important information:

¹ May be established after October 1 for a new business formed after October 1 of the year in which the SIMPLE IRA plan is established.

² Generally, safe harbor 401(k) plans require an initial plan year of at least three months, making October 1 the effective deadline for a plan with a fiscal calendar year.

³ If allowed by the plan.

⁴ Employers with 26 to 100 employees who earned at least \$5,000 in the prior year can qualify for the higher participant contribution limit of \$18,100 (and \$3,850 catch-up) by electing to increase matching contributions to 4% or nonelective contributions to 3%.

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

Retirement plan features (continued)

Not-for-profit and education organization		
403(b)	Profit-sharing/Money purchase	Defined benefit
501(c)(3) organizations, churches and educational institutions (private and public)	Any employer	Any employer
Generally, any employee (<i>universal availability</i> rule), although statutory exclusions can apply	Generally, any employee who is at least age 21 and has completed a year of service, although statutory exclusions can apply	Generally, any employee who is at least age 21 and has completed a year of service, although statutory exclusions can apply
Before first deferral contribution; plan year can be calendar or fiscal year	Before the due date (including extensions) of the employer's tax return for a particular year	Before the due date (including extensions) of the employer's tax return for a particular year
Qualified custodial accounts or annuity contracts required; retirement income accounts may be used instead for church employees	Qualified trust must be established (can be self-trusted)	Qualified trust must be established (can be self-trusted)
Participant	Participant and/or plan sponsor	Plan sponsor only
Annual Form 5500 filings, ⁷ annual notices for safe harbor contributions, QDIAs and automatic enrollment, as applicable	Annual Form 5500 filings, annual notices for QDIAs, as applicable	Annual Form 5500 filings
Coverage, general nondiscrimination and only ACP tests apply; if safe harbor requirements are met, plan is deemed to meet all nondiscrimination tests ⁸	Coverage, general nondiscrimination and top-heavy tests apply	Coverage, general nondiscrimination, top-heavy and minimum participation tests apply
Up to \$24,500 Up to \$8,000 additional catch-up if age 50 or older (if allowed by the plan) Up to \$11,250 additional catch-up if age 60-63 only (replaces the 50+ catch-up limit described above, if allowed by the plan)	No	Not available
Discretionary, unless safe harbor applies (refer to table on page 4)	Discretionary if profit-sharing plan; required if money purchase plan	Determined by actuarial formula
Roth option available		
Lesser of 100% of compensation or \$72,000 (not including catch-up contributions; see above)	Lesser of 100% of compensation or \$72,000 (up to 25% of compensation is deductible)	Determined by actuarial formula
Available	Available	Available
<ul style="list-style-type: none"> Distributions: restricted, subject to plan's terms Vesting: 100% immediate for participant and, generally, for employer contributions 	<ul style="list-style-type: none"> Distributions: restricted, subject to plan's terms Vesting: subject to schedule 	<ul style="list-style-type: none"> Distributions: restricted, subject to plan's terms Vesting: subject to schedule
Account balance of custodial account; annuity	Account balance (money purchase plans are required to provide a qualified joint and survivor annuity as a distribution option)	Annuity defined by plan's terms

Footnotes/Important information:

⁵ When determining employer and employee contributions, the compensation that can be taken into account is limited to \$360,000 for 2026 for all purposes except when determining SIMPLE IRA matching contributions.

⁶ Matching contributions may be reduced to a minimum of 1% for no more than two of every five calendar years.

⁷ Filings required for not-for-profits subject to ERISA only; not applicable to most churches or governmental employers.

⁸ Nondiscrimination testing is not applicable to most churches or governmental employers.

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 the traditional plan types outlined here.

Choosing the right plan is important, so please consult your financial professional to discuss your options.

Safe harbor options and glossary

Safe harbor contribution options⁹

Plan	Matching contribution ¹⁰	or	Nonelective contribution ¹⁰	Vesting	Notice requirement
SIMPLE IRA Safe harbor contribution is required	<ul style="list-style-type: none"> Dollar-for-dollar match of up to 3% of compensation; 3% match may be reduced to as low as 1% in no more than two out of every five years¹¹ 		2% for all eligible employees ¹¹	100% immediate	Before the 60-day election period begins (before the start of the next plan year)
401(k) or 403(b)	<ul style="list-style-type: none"> Dollar-for-dollar match of up to 3% of compensation and a 50 cents-on-the-dollar match between 3% and 5% of compensation; or Dollar-for-dollar match of up to 4% of compensation; or Other comparable formula 		3% for all eligible employees	100% immediate	No earlier than 90 days and no later than 30 days before the beginning of each plan year. However, plans with only a nonelective safe harbor have no notice requirements
401(k) or 403(b) with qualified automatic contribution arrangement (QACA) Safe harbor contribution is required	<ul style="list-style-type: none"> Dollar-for-dollar match of up to 1% of compensation and a 50 cents-on-the-dollar match between 1% and 6% of compensation; or Dollar-for-dollar match of up to 3.5% of compensation; or Other comparable formula 		3% for all eligible employees	May be subject to two-year schedule	No earlier than 90 days and no later than 30 days before the beginning of each plan year. However, plans with only a nonelective safe harbor have no notice requirements

Footnotes/Important information:

⁹ A safe harbor 401(k) plan that meets the safe harbor contribution requirements above is deemed to satisfy the ADP and ACP tests and may qualify for a top-heavy exemption. For a SIMPLE IRA and for a 401(k) or 403(b) plan that also adopts the qualified automatic enrollment feature, either the match or nonelective contribution must be made (as described in the table). For a SIMPLE IRA, no additional contributions can be made.

¹⁰ When determining employer and employee contributions, the compensation that can be taken into account is limited to \$360,000 for 2026 for all purposes except when determining SIMPLE IRA matching contributions.

¹¹ In order to qualify for the higher participant contribution limits, plans with 26-100 employees may opt to provide a dollar-for-dollar match of up to 4% of compensation or 3% nonelective contributions for all eligible employees. Refer to page 2 for more details.

Glossary

Automatic enrollment: An optional feature a plan may adopt that accepts employee contributions. Employees are automatically enrolled in the plan instead of having to sign up to participate. Auto-enroll plans typically involve selection (by the employer) of a default investment in which all contributions are automatically invested (see QDIA) and a default deferral rate, which could increase gradually over time. A “qualified” automatic enrollment arrangement must satisfy minimum deferral rate percentage requirements. Employees can opt out or increase or reduce their savings rate or change their investment mix at any time.

Form 5500: An annual report that ERISA plans must file with the Department of Labor to show plan coverage and financial information. Large plans (generally 100 or more participants) must engage an independent auditor each year to prepare a financial statement as part of the Form 5500 filing.

Nondiscrimination testing: The following are brief definitions of several key annual nondiscrimination tests that may apply to a plan and be deemed to be met if a 401(k) or 403(b) plan adopts a safe harbor contribution feature (see table above). Other tests (not described here) include coverage, general nondiscrimination and maximum limits, which generally apply to defined contribution (even those with a safe harbor feature) and defined benefit plans, and minimum participation, which applies to defined benefit plans.

• **ACP (actual contribution percentage):**

This test applies to 401(k) and 403(b) plans and uses an average of the matching contributions made to nonhighly compensated employees to limit the matching contributions to highly compensated employees, on average.

• **ADP (actual deferral percentage):**

This test applies to 401(k) and SAR-SEP plans and uses an average percentage of the non-highly compensated employees’ deferral to limit the amount that highly compensated employees may defer on average.

• **Top-heavy:** This test applies to SEP, profit-sharing, money-purchase, 401(k) and defined benefit plans. A plan is considered top-heavy if the total value of all key employees’ accounts is greater than 60% of the total value of *all* employees’ accounts. In this case, the employer must make to the plan a minimum contribution equal to 3% (or the highest allocation made to key employees, if less).

QDIA (qualified default investment alternative): QDIAs provide a safe harbor for plan fiduciaries in situations in which plan participants fail to provide investment instructions. By selecting a default investment that qualifies as a QDIA and meeting other regulatory conditions (e.g., initial and annual notice requirements), employers can benefit from certain fiduciary relief under ERISA §404(c)(5). Only certain types of investments qualify as a QDIA (e.g., managed account, target date fund, balanced fund).

Qualified trust: Qualified plan assets must be held in trust. Plan sponsors may choose to act as trustee for the plan or hire a corporate trustee to handle contributions, plan investments and distributions. Use of a corporate trustee by a large plan (generally 100 or more participants) may allow the independent auditor to do a limited-scope audit (lower cost).

Roth option: A Roth option may be offered within certain plans. It allows plan participants and/or employers to make after-tax contributions; then, assuming certain requirements are met, earnings may be withdrawn tax-free.

Vesting: The process by which a participant in a retirement plan becomes entitled to ownership of the benefit. Depending on the plan’s vesting schedule, participants can become fully vested (own) the benefit immediately or over time (incrementally over no more than six years, or all at once after no more than three years).

2026 annual contribution limits at a glance^{12, 13, 14}

SEP IRA (Simplified Employee Pension)	Employer contribution limit (no employee contributions)	\$72,000 or 25% of participants' compensation, whichever is less	
SIMPLE IRA (Savings Incentive Match Plan for Employees)	Employee contributions	Employers with 25 or fewer employees	Employers with 26-100 employees¹⁵
	• Participant contribution limit	\$18,100	\$17,000
	• Additional catch-up contribution limit for ages 50+	\$3,850	\$4,000
	• Additional catch-up contribution limit for ages 60-63 ¹⁶	\$5,300	\$5,300
	Mandatory employer contributions¹⁷		
	• Dollar-for-dollar match ¹⁸ of employee contributions up to	3% of compensation	3% of compensation
	OR		
	• Nonelective contributions of	2% of compensation	2% of compensation
401(k) and 403(b) plans	Participant contribution limit (employer contributions are discretionary unless safe harbor applies; refer to table on page 4)	\$24,500	
	Additional participant catch-up contribution limit for ages 50+	\$8,000	
	Additional participant catch-up contribution limit for ages 60-63¹⁶	\$11,250	
Profit-sharing and money purchase plans	Employer contribution limit No employee contributions; up to 25% of compensation is deductible	\$72,000 or 100% of participants' compensation, whichever is less	

Footnotes/Important information:

¹² When participants withdraw before-tax contributions from their plan, that money is subject to ordinary income tax and, if withdrawn before age 59½, may be subject to an additional 10% federal tax penalty (25% penalty if withdrawn from a SIMPLE IRA within the first two years).

¹³ Generally, defined contribution plans have a deductible limit of 25% of eligible payroll. Check with your tax advisor for specifics.

¹⁴ When determining employer and employee contributions, the compensation that can be taken into account is limited to \$360,000 for 2026 for all purposes except when determining SIMPLE IRA matching contributions.

¹⁵ Plans can qualify for the higher employee contribution limit of \$18,100 (and \$3,850 catch-up) by making higher mandatory employer matching contributions of 4% of compensation or nonelective contributions of 3% of compensation.

¹⁶ The age 60-63 catch-up contribution limit replaces the 50+ catch-up contribution limit only for participants who reach age 60, 61, 62 or 63 in 2026.

¹⁷ Employers have the option of making additional nonelective contributions. Refer to page 2 for more details.

¹⁸ Matching contributions may be reduced to a minimum of 1% for two of every five calendar years.

The Capital System™

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Diverse perspectives

Most portfolios have multiple portfolio managers, each of whom invests part of the portfolio in their strongest individual convictions. Combining these diverse investment approaches into a single portfolio helps us pursue more consistent results, with less volatility.

Long-term view

Investment professionals invest with a long-term view, which we believe aligns our goals with the interests of our clients. Managers are rewarded more for their long-term results,¹⁹ and most personally invest in the funds they manage.²⁰ Our fund management fees are among the lowest in the industry.²¹

A history of strong investment results

Over the past 40 years, **74%** of funds outpaced more than half of their respective peers when comparing average 10-year rolling returns. And **71%** had higher risk-adjusted returns (as indicated by the Sharpe ratio²²) over that same time frame.²³

Footnotes/Important information:

¹⁹ Compensation paid to our investment professionals is heavily influenced by results over one-, three-, five- and eight-year periods, with increasing weight placed on each succeeding measurement period to encourage a long-term investment approach.

²⁰ Ninety-seven percent of American Funds assets are invested in mutual funds in which at least one manager has invested more than \$1 million. Source: Morningstar. Data as of 2/15/25.

²¹ On average, our mutual fund management fees were in the lowest quintile 49% of the time, based on the 20-year period ended December 31, 2024, versus comparable Lipper categories, excluding funds of funds.

²² Sharpe ratio uses standard deviation (a measure of volatility) and return in excess of the risk-free rate to determine reward per unit of risk. The higher the number, the better the portfolio's historical risk-adjusted performance.

²³ Methodology: Data as of 12/31/24. Based on a comparison of each fund with its respective Morningstar category peers. Data are based on the following mutual fund share classes: Class F-2, Class M, Class 529-A, Class 1, Class P-2 and Class 4. One share class was used per fund. The analysis uses Morningstar hypothetical methodology to calculate hypothetical fund results for periods before a share class's inception. For those periods, Morningstar uses results for the oldest share class (unless the newer share class is more expensive). Source: Capital Group, based on mutual fund data from Morningstar. For each fund, we calculated the average rolling Sharpe ratio and return over the 40-year period (or the fund's lifetime, if it lacks a 40-year history). That average rolling return and Sharpe ratio were compared against the equivalent averages for each fund's respective Morningstar peers on a percentile basis. Rolling returns are calculated monthly.

There have been periods when the funds have lagged their indexes.

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