

RETIREMENT INSIGHTS FOR BUSINESS OWNERS

Maximizing your business' value with a workplace retirement plan

Research shows that planning for retirement is one of the most important financial priorities for employees,¹ yet many business owners believe that workplace retirement plans are too expensive or feel that changing economic conditions have forced them to move retirement planning to the back burner.

The reality is that affordable retirement plans exist for business owners. And they often:

- Are easy to set up
- Can be structured to meet a wide range of needs
- May offer immediate tax advantages

Beyond being a powerful savings tool, workplace retirement plans:

- Make it easier for you to accumulate and transfer wealth created by your business
- Help attract and retain top talent in today's challenging labor market

Make a real impact on your bottom line

For business owners with employees:

Potential tax savings may be substantial enough to offset costs — and, in some cases, can add to bottom-line profitability. Implementing an employee retirement plan can be a great way to reduce a company's tax burden if business tax rates increase.

For self-employed individuals:

An individual 401(k) may provide greater savings opportunities than a SEP IRA, as it allows higher contribution limits along with catch-up contributions for individuals age 50 or older.



Read about tax credits that may be available to your business, including the [Employer Contribution Tax Credit and the Plan Startup Costs Tax Credit](#).

Attract and keep the right people

As benefits continue to shrink and pay raises become harder to offer, SEP IRAs, SIMPLE IRAs and small business 401(k)s can help you offer lower-cost, tangible rewards to your employees. Here's why:

- Employees will see 100% of your retirement plan contribution deposited in their accounts, versus a smaller percentage of cash bonuses you award, which are subject to immediate tax withholding.
- Employees will also have the potential to benefit from tax-deferred compounded growth.

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See last page for additional important information.

Choose a plan that fits your needs

There are many affordable workplace retirement plans available. Whether you're self-employed or run a company with hundreds of employees, a 401(k), a SIMPLE IRA² or SEP IRA is easy to administer and may have little to no administrative costs.

- A **401(k)** allows for the largest salary or income contributions (pre-tax or Roth), allows discretionary employer contributions and also provides a loan feature.

Save and earn more with the right plan

The benefits of choosing the right plan go beyond dollar-for-dollar savings; when contribution limits and potential taxes are considered, the right plan can result in more savings or earnings from the same available funds.

Save more

when using an individual 401(k) versus SEP IRA

	Individual 401(k)	SEP IRA
Self-employed income³	\$150,000	\$150,000
Maximum salary deferral	\$24,500	n/a
Maximum contribution (Max. 20% of self-employed income)	\$30,000	\$30,000
Maximum total contribution	\$54,500	\$30,000
And if aged 50 or older, add an additional catch-up contribution to salary deferral ⁴	\$8,000 for a total of \$62,500	n/a

Earn more

with a 401(k) profit-sharing contribution versus a cash bonus

	Cash bonus	Profit sharing
Employer pays	\$5,000	\$5,000
Federal income tax withholding	\$1,250	\$0 (deferred)
State/local income tax withholding	\$506	\$0 (deferred)
Social Security/Medicare taxes	\$382.50	\$0
Your employee can invest	\$2,861.50	\$5,000

A hypothetical illustration. Tax calculations assume a \$50,000 annual salary and \$5,000 cash bonus treated as supplemental pay, with no deductions (health care, for example), taxed in New York State and including NYSDI tax. Dollar figures are estimated and rounded. Social Security and Medicare taxes do not apply to employer profit-sharing contributions to a 401(k). Making a plan contribution, rather than a cash bonus, will also reduce the payroll taxes for your business such as FICA, FUTA and workers' compensation, impacting your bottom line.

Case study: Potential for significant tax savings with a SEP IRA

Sarah's incorporated business had a profitable year in 2025. While preparing her business tax filing, her accountant suggested she establish a business retirement plan. It could help her retain her valuable employees and provide her business with a much-needed tax deduction. Since Sarah is uncertain that her business will have the same success in future years, her accountant recommended a SEP IRA because:

- Sarah can open a SEP IRA in the current year, up to her tax filing deadline for tax year 2025, and apply the deductions toward the previous year.
- Contributions can be made on a discretionary basis.
- SEP IRAs can be funded up to the business tax filing deadline (including extensions), giving Sarah the opportunity to evaluate her finances before committing to contributions.
- Sarah's business can receive a \$25,000 deduction if she contributes 10% to the plan for herself and her employees.
- Her business can also receive a tax credit of up to \$5,000 for the first three years since this is her first business retirement plan and she has employees.⁵

Employee	Salary	SEP IRA contribution
Sarah	\$105,000	\$10,500
Jane	\$65,000	\$6,500
Bob	\$45,000	\$4,500
John	\$35,000	\$3,500
Business deduction		\$25,000

Compare features of each plan

	Small business 401(k)	SEP IRA	SIMPLE IRA
Best fit for business with	Any number of employees including self employed owners	5 or fewer employees	100 or fewer employees
Who can contribute	Employer and employee	Employer only	Employer and employee
Maximum contribution amount (Employer + employee + catch-up)	\$72,000 (\$80,000 for age 50–59 or age 64+) ⁴	\$72,000	\$20,000
Employer contribution limits	An employer's contribution cannot exceed 25% of the employee's compensation	Up to 25% of salary ³ (20% for self-employed)	2% of salary or 3% match ⁶
Employer deferral limits	\$24,500	Not allowed	\$16,500
Catch-up contributions for ages 50+	✓	Not allowed	✓
Tax credits for opening a new plan ⁵	✓	✓	✓
Allows for Roth contributions (after-tax contributions)	✓	Optional ⁷	Optional ⁷
Allows for loans	✓		
Investment options	One streamlined menu of investments designed for small businesses to help take the guesswork out of fund selection	Full range of stocks, bonds, options, ETFs and mutual funds	
Fiduciary support (portfolio support and investment management)	✓	Optional	Optional
Complements additional tax-savings plans (for example, Cash Balance Pension Plans)	✓		

How can you get started?

Visit [Workplace Benefits for Business Owners and Entrepreneurs](#) for more information.

¹ Bank of America 2025 Workplace Benefits Report

² SIMPLE IRA is only available if you have 100 or fewer employees earning at least \$5,000 during any two preceding calendar years and reasonably expected to earn at least \$5,000 in the current year.

³ Self-employed income is the net income after the subtraction of hypothetical business expenses and self-employment taxes. For more information, see IRS Publication 560: Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans).

⁴ Catch-up contributions are increased to \$11,250 for individuals who attain age 60, 61, 62 or 63 in 2026.

⁵ The tax credit of up to 50% of the cost to set up and administer the plan and educate employees about the plan, up to a maximum of \$5,000 per year, may be available for each of the first three years beginning with the startup year or the year prior. [Learn more about the Employer Contribution Tax Credit and the Plan Startup Costs Tax Credit.](#)

⁶ Employers may make an additional nonelective contribution to each employee of the plan in a uniform manner, provided that the contribution may not exceed the lesser of up to 10% of compensation or \$5,000 (indexed, \$5,300 for 2026). For more information please refer to the [SIMPLE IRA Fact Sheet](#).

⁷ Under SECURE 2.0, employers may allow employees the ability to make Roth contributions to a SEP IRA or a SIMPLE IRA. Currently, Merrill is not offering the optional SEP Roth IRA or SIMPLE IRA Roth feature. Note: Roth contributions may be available in a 401(k) plan.

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