Morgan Stanley

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Choosing a Retirement Plan for Your Business

INTRODUCTION

Building Your Retirement

Starting and maintaining a retirement plan for your business can be easier than you think when you use the resources available to you through your Morgan Stanley Financial Advisor or Private Wealth Advisor.

General Retirement Plan Types

There are a wide variety of retirement programs available, all of which can offer tax advantages to both employers and employees. Most retirement programs are based on one of three general types of plans:

- Individual Retirement Account-Based Plans
- Defined Contribution Plans
- Defined Benefit Plans

Businesses and nonprofit organizations may be able to select a plan in one or more of these general categories to construct a retirement program uniquely suited to the organization's needs.

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Key Terminology

Actual Deferral Percentage (ADP) Test

An IRS test designed to limit the extent to which salary deferrals made on behalf of highly compensated employees may exceed the salary deferrals made on behalf of nonhighly compensated employees under a 401(k) Plan.

Compensation Cap

The maximum amount of annual compensation that may be counted for determining retirement plan benefits and contributions. The compensation cap for 2018 is $275,000.

Employee Retirement Income Security Act (ERISA)

This act established the nondiscrimination requirements, reporting and disclosure requirements, plan funding standards, vesting and participation requirements, and fiduciary responsibilities applicable with respect to covered employee benefit plans.

Fiduciary

A person or entity that exercises any discretionary authority or control over the management of an ERISA-covered plan or plan assets, renders investment advice for a fee, or has any discretionary authority or responsibility in the administration of the plan.

Fiduciary Responsibility

Among other things, a fiduciary has a legal responsibility to act in the sole interest of plan participants and beneficiaries, and to act prudently with respect to plan assets.

Cliff Vesting

A vesting schedule under which an employee is not entitled to any percentage of his or her retirement benefits until he or she is fully vested after the attainment of a specific number of years of service. The maximum number of years of service before an employee is fully vested under a cliff vesting schedule in a defined contribution plan is three years; five years in a defined benefit plan.

Graded Vesting

A vesting schedule under which the participant gradually becomes fully vested over time. For defined contribution plans, this schedule requires 20% vesting after two years of service and an additional 20% for each additional year of service. For defined benefit plans, three years of service can be required for the first 20%.

Highly Compensated Employee

Any person who is more than a 5% owner of the business in the previous or current year, and any person who earned over a certain amount in the previous year (e.g., $120,000 if the preceding year is 2017).

IRS Reporting

Each employer, with very limited exceptions, that maintains a qualified retirement plan is required to file an annual report with the Internal Revenue Service, commonly referred to as the Form 5500 series report.

Key Employee

For 2018, an employee who owns more than 5% of the business, an officer earning more than $175,000 or a 1% owner earning more than $150,000.

Matching Contribution

A plan feature that rewards those employees participating in the salary deferral program by agreeing to match employee contributions to a certain extent.

Nonelective Contribution

An employer contribution equal to a percentage of compensation that is made on behalf of all eligible employees.

Plan Administration

Responsibilities can include: completion of discrimination and top-heavy testing, satisfying IRS and other governmental reporting, providing employee benefit statements and plan information, processing distributions and amending the plan when necessary.

Profit Sharing Contribution

A fully discretionary employer contribution, which is made on behalf of all eligible employees.

Top-Heavy Plan

A plan is deemed top-heavy when 60% or more of the plan benefits or contributions are allocated to key employees. A top-heavy plan generally requires that certain additional contributions or benefits be allocated to non-key employees.

Employer-Sponsored Retirement Program

Choosing a Retirement Plan for Your Business

A retirement plan provides a systematic way to save for retirement and offers some of the most significant tax savings available today. A retirement plan may be tailored to fit the specific needs of your business by using a variety of plan features.

A retirement plan can also have a positive effect on employee productivity and can help to attract and retain employees. Its value as an employee benefit, combined with the substantial tax savings it can generate for you and your business, underscores the importance of a retirement program for your business.

After you have reviewed the range of retirement plan alternatives, you may want a personalized retirement program evaluation for your business. Simply request a complimentary Retirement Plan Proposal from your Morgan Stanley Financial Advisor or Private Wealth Advisor.

Tax Advantages

A retirement plan has significant tax advantages:

- In addition to helping your business, retirement plans can help you and your employees save taxes and accumulate retirement assets.
- Employer contributions can be deductible from the employer's income, and can grow in the plan on a tax-free basis.
- Employee pretax contributions and earnings are not taxed until distributed to the employee, and Roth after-tax 401(k) contributions and earnings may be tax free when distributed to the employee.

Modern Plan Designs Appeal to a Range of Businesses

- Higher contribution amounts so you and your employees can set aside the larger amounts that you will undoubtedly need for retirement.
- Some plans allow "catch-up" contributions that allow owners and employees age 50 or over to defer additional amounts to help make up for lost time.
- A small business may be eligible for a tax credit of up to $500 per year for each of the first three years for the cost of starting most types of plans and educating employees about the plan.
- Tax credits are available for certain low- and moderate-income individuals, including self-employed individuals, who make contributions to their plans.

The Plan for Your Business

Factors to Consider

To derive the maximum benefit from your retirement program, you must select and adopt the most appropriate plan for your business. Some important points to consider are:

- The history of your business and your business goals
- Your personal plans for retirement
- Any plans for future expansion
- Information about employees such as ages, salaries, years of service and turnover trends
- The availability of funds to contribute to the program

Attractive Plan Benefits and Features

A retirement plan may be tailored to fit the specific needs of your business by using a variety of plan features. In many cases, proper plan design can help to reduce plan costs and provide increased flexibility.

ELIGIBILITY REQUIREMENTS. Qualified plans are subject to specific employee coverage and participation rules. Participation may be conditioned on meeting age (e.g., employees must be 21 years of age) and service requirements. Deferred participation can significantly reduce annual contributions for businesses with high employee turnover. Furthermore, employers may choose to exclude certain classes of employees from participation. For example, nonresident aliens and employees covered under certain collective bargaining agreements may be excluded.

DEFERRED VESTING. An employer may be able to require that employees work a specified number of years before becoming entitled to receive full retirement benefits. A vesting schedule can reduce costs while encouraging longevity of employment.

PARTICIPANT LOANS. Loans are a popular feature of many retirement plans. The ability to borrow from a retirement plan may reassure employees that their savings can be accessed, if necessary, and this can lead to increased participation in 401(k) Plans. Loans are subject to restrictions as to how much may be borrowed and what the repayment procedures are. Loans are not available in all plans.

PAYMENT OPTIONS. An employer can allow each employee to choose a payment option that best meets his or her individual goals and objectives by offering a selection of payment options. A retirement program can be designed to offer options such as a lump-sum payment, scheduled periodic payments over time or an annuity option designed to provide a specified cash flow for life.

PERMITTED DISPARITY. An employer may be able to make a retirement plan part of an overall program that includes Social Security by utilizing a plan feature called "Permitted Disparity." Using Permitted Disparity, an employer is able to allocate a larger contribution to more highly paid employees, based on an additional contribution made for compensation amounts over the Social Security Taxable Wage Base ($128,400 in 2018) or a lower amount if desired (subject to IRS requirements). This affords the company the opportunity to provide greater benefits to more highly paid personnel without violating the nondiscrimination rules.

Plan Choice

SITUATION	PLANS TO CONSIDER
New Company	**No Employees** SEP, Profit Sharing Plan, 401(k) Plan, Roth 401(k) Plan
	With Employees SEP, SIMPLE, Profit Sharing Plan, Age-Weighted Profit Sharing Plan, New Comparability Profit Sharing Plan, 401(k) Plan, Safe Harbor 401(k) Plan, Roth 401(k) Plan
Established Company	**No Employees** SEP, Profit Sharing Plan, Age-Weighted Profit Sharing Plan, New Comparability Profit Sharing Plan, 401(k) Plan, Roth 401(k) Plan, Defined Benefit Plan, Combination Defined Benefit Plan/Defined Contribution Plan
	With Employees SEP, SIMPLE, Profit Sharing Plan, Age-Weighted Profit Sharing Plan, 401(k) Plan, Safe Harbor 401(k) Plan, Roth 401(k) Plan, Defined Benefit Plan, Combination Defined Benefit Plan/Defined Contribution Plan
Employee Funded Only	401(k) Plan, Roth 401(k) Plan
Contributions Weighted Toward Older Employees and Owners	Defined Benefit Plan, Combination Defined Benefit Plan/Defined Contribution Plan

Defined Benefit Plans promise a specific benefit at retirement, for example, $1,000 a month, or a percentage of pay, such as 60% of average compensation. Employer contributions must be sufficient to fund promised benefits. Typically, Defined Benefit Plans are funded exclusively by employer contributions.

Defined Contribution Plans do not promise a specific benefit at retirement. Instead, employees or employers, or both, contribute to accounts maintained under the plan, sometimes at a set rate, but usually at a discretionary rate. At retirement, an employee receives the accumulated contributions plus earnings (or minus losses).

IRA-Based Plans

Simplified Employee Pension (SEP) Plan

PROFILE

The SEP Plan is an alternative to the variety of other qualified retirement plans available to a business owner. The SEP Plan offers many of the tax benefits of a qualified retirement plan, while eliminating much of the administrative burden and expense often associated with providing retirement benefits for employees.

Employer contributions are deposited directly into an employee's SEP-IRA. Contributions are discretionary and may vary from year to year. For 2018, an employer may contribute up to 25% of each eligible employee's compensation, or $55,000, whichever is less. If the plan sponsor is a self-employed individual or a partnership, then the owner or partners' contributions will generally be limited to the lesser of (a) $55,000, or (b) 20% of earned income (e.g., gross less business expenses) less one-half of self-employment taxes, without deducting contributions for the self-employed individual/partner from the business that has the plan. These calculations are complicated so you should, of course, contact your tax and legal advisors.

Any employee who has worked in any part of three of the preceding five calendar years and has reached age 21 must be included in the plan, including seasonal and part-time employees, if they have earned at least $600 in the applicable year. This figure is subject to annual adjustment for inflation.

POSSIBLE ADVANTAGES

- Contributions may vary from year to year or be omitted entirely in any given year.
- Traditional IRA contributions of up to $5,500 for 2018 ($6,500 if 50 or older) or 100% of earned income, whichever is less, may be deposited into the employee's SEP-IRA account. The deductibility of the IRA contribution will depend on the IRA owner's Modified Adjusted Gross Income (MAGI).
- SEPs do not have the complex amendment or administration requirements that apply to other qualified plans, resulting in lower costs. In particular, the Internal Revenue Service does not currently require the employer to file any special reports, provided certain disclosure requirements are satisfied.
- Funds can be rolled over to another IRA or qualified plan at any time.

POSSIBLE DISADVANTAGES

- Employees are always 100% vested in contributions made by the employer. Deferred vesting may not be elected.
- No pretax employee contributions.
- Loans are not permitted.
- Employees can withdraw funds at any time subject to income tax and a 10% penalty tax, if applicable.

SIMPLE IRA Plans

PROFILE

The Savings Incentive Match Plan for Employees (SIMPLE) IRA Plan is designed to make qualified plans more accessible to small businesses. The SIMPLE IRA Plan is available to employers with 100 or fewer employees who have no other qualified retirement plans.*

For existing businesses, the SIMPLE IRA plan must be established by October 1 to make contributions for the current year, or as soon as administratively possible for businesses established after October 1. Employee contributions are made on a salary deferral basis, and employer contributions must be made by the business' tax-filing deadline, including extensions.

Employees are eligible to participate in a SIMPLE IRA Plan if they earned $5,000 or more during any two preceding calendar years and are expected to earn $5,000 or more in the current year (maximum restriction). Employers must make contributions to employee accounts in the form of either a dollar-for-dollar matching contribution on employee salary deferrals of up to 3% of employee compensation or nonelective contributions of 2% of employee compensation (subject to $275,000 compensation cap) for all eligible employees. For 2018, employees may defer 100% of compensation up to $12,500 ($15,500 for individuals age 50 or older). Vesting is 100% and immediate.

* SIMPLE 401(k) Plans are also available, and while they do not require annual nondiscrimination testing and are not subject to top-heavy rules, they are subject to other qualified plan rules and require the filing of a Form 5500. Please contact your tax and legal advisors for further details.

POSSIBLE ADVANTAGES

- For employers establishing a 3% matching plan, employees are given an incentive to contribute to their retirement on a pretax basis.
- Ability to match as low as 1% of compensation in any two out of five years.
- No reporting requirements (but certain disclosure requirements apply).
- Nondiscrimination and top-heavy rules applied to other qualified plans are not applied to SIMPLE IRA Plans.
- Lower administrative expenses.

POSSIBLE DISADVANTAGES

- Mandatory employer contributions.
- Employers seeking to maximize their own retirement benefits are more likely to do so with alternative programs.
- All contributions are 100% vested.
- No loan provision allowed.
- Lenient eligibility requirements.
- Employees can withdraw funds at any time subject to income tax. Furthermore, distributions within the first two years of participation for individuals under age 59½ are generally subject to a 25% penalty tax, and a 10% penalty tax after those two years (subject to certain exceptions).
- Employer cannot contribute to another retirement plan unless the other plan is maintained for collective bargaining employees only.

Defined Contribution Plans

Profit Sharing Plan

PROFILE

The Profit Sharing Plan is a relatively flexible qualified plan. An employer may typically contribute up to 25% of includable compensation of all eligible employees on a tax-deductible basis. For 2018, the maximum amount that may be allocated to any one participant could be as high as 100% of the participant's compensation or $55,000, whichever is less. The contribution percentage and the dollar amount may vary from year to year. Since the decision to make a contribution is made by the employer each year, many employers tie the level of contribution to the profitability of the business, but it is not a requirement that the employer show a profit in order to make a contribution.

Contributions to conventional profit sharing arrangements are generally allocated to participants in direct proportion to their individual compensation or allocated on some other nondiscriminatory basis such as the Permitted Disparity rules.

POSSIBLE ADVANTAGES

- Contributions are discretionary, meaning contribution amounts may vary from year to year.
- Nonvested account balances forfeited by terminating employees may be reallocated to the accounts of active participants or may be used to reduce employer contributions.
- Loans and certain in-service withdrawals may be allowed.

POSSIBLE DISADVANTAGES

- Fully funded by employer.
- No pretax employee contributions.

Age-Weighted Profit Sharing Plan

PROFILE

The Age-Weighted Profit Sharing Plan is structured to allow employers to make a discretionary contribution each year while allocating contributions based on each participant's age and salary. This permits a larger share of the total employer's contribution to be made on behalf of older employees. The allocation in an Age-Weighted Profit Sharing Plan formula rests on the premise that older employees have less time to accumulate retirement benefits and therefore a larger contribution must be made on behalf of older participants to make the benefits of all participants equal at retirement. As a result, the percentage of contributions allocated to older participants is increased.

POSSIBLE ADVANTAGES

- Contributions are discretionary. The overall amount of contributions may vary from year to year.
- This plan offers higher contribution levels for older participants.
- Nonvested account balances forfeited by terminating employees may be reallocated to the accounts of active participants or may be used to reduce employer contributions.
- Can be adopted instead of a Defined Benefit Plan to benefit older, more highly compensated employees.

- Can be established in addition to a Defined Benefit Plan allowing owners to save larger amounts for retirement.
- Loans and certain in-service withdrawals may be allowed.

POSSIBLE DISADVANTAGES

- Older, lower-paid employees receive a larger contribution than in a conventional Profit Sharing Plan.
- Contributions may vary considerably from year to year depending on the demographic composition of the plan participants.
- Additional testing may be required.

New Comparability Profit Sharing Plan

PROFILE

A New Comparability Profit Sharing Plan is designed to allow contributions to be allocated based on criteria such as job classification, compensation and age. This enables the employer to allocate a greater contribution on behalf of key employees, especially owners.

Contributions to conventional Profit Sharing Plans are generally allocated to each participant in direct proportion to each individual's compensation or allocated on another nondiscriminatory basis such as the Permitted Disparity rules. The New Comparability Plans provide for contribution allocations that favor key employees to a greater degree than what can be achieved with conventional plans.

Unlike the Age-Weighted Profit Sharing Plan, which by design favors older employees (potentially including both key and non-key employees), a New Comparability Plan can be structured to benefit key employees who are younger.

POSSIBLE ADVANTAGES

- This plan offers higher contribution levels for key employee participants.
- Nonvested amounts forfeited by terminated employees may be reallocated to the accounts of active participants or may be used to reduce employer contributions.
- Can be adopted instead of a Defined Benefit Plan to benefit the older, more highly compensated key employees.
- Can be established in addition to a Defined Benefit Plan allowing owners to save larger amounts for retirement.
- Loans and certain in-service withdrawals may be allowed.

POSSIBLE DISADVANTAGES

- Annual testing is required to ensure that the plans are in compliance with nondiscrimination rules. If the plans fail the discrimination tests, contributions may need to be added or returned.

401(k) Plans

Traditional 401(k) Plan

PROFILE

The 401(k) Plan is an employer-sponsored plan that allows your employees to make contributions with pretax dollars. These contributions are generally made to the plan through payroll deductions. Contributions to the 401(k) by employees will reduce an employee's gross earnings for federal income tax purposes. In 2018, the maximum salary deferral contribution to a 401(k) Plan is 100% of compensation or $18,500, whichever is less. Individuals age 50 or older will be allowed additional "catch-up" contributions of $6,000 ($24,500 total). The combination of employee and employer matching and/or profit sharing contributions that may be allocated to an employee may not exceed the lesser of 100% of compensation or $55,000 ($61,000 for individuals age 50 or older) in 2018.

The Internal Revenue Service regulations governing 401(k) Plans require the use of annual nondiscrimination tests to determine the maximum contribution levels for highly compensated employees, both for deferrals and matching contributions. These tests are designed to ensure that the plan benefits all employees in a nondiscriminatory manner.

POSSIBLE ADVANTAGES

- Plan may be funded mostly through salary deferrals.
- Employer contributions are discretionary.
- Automatic enrollment of new employees is permitted. This feature can assure plan participation and improve nondiscrimination testing results.
- Employees are able to reduce their taxable income and save for retirement.
- Employer may make matching contributions to encourage participation.
- Loans and certain in-service withdrawals may be allowed.
- Employer can choose a cliff or graded vesting schedule for matching and/or profit sharing contributions.
- Can be adopted in addition to a Defined Benefit Plan to save additional money for retirement.

POSSIBLE DISADVANTAGES

- Actual Deferral Percentage (ADP) test can limit highly compensated employee salary deferrals. The employer may have to make additional contributions for lower-paid employees to increase ADP.
- Administration for testing can be more complicated than other plans. Alternative programs may be simpler and more cost-effective.

Roth 401(k) Plan

PROFILE

The Roth 401(k) became effective January 1, 2006, as a complement to the traditional 401(k), allowing employees to make after-tax contributions to their employer's 401(k) Plan. The contribution limits of a Roth 401(k) mirror those of the traditional 401(k)—employees are able to contribute up to $18,500 of salary in 2018 ($24,500 if age 50 or older), with each employee's combination of Roth and traditional 401(k) contributions not to exceed these limits.

While contributions to a traditional 401(k) Plan are made with pretax dollars, contributions to a Roth 401(k) are made with after-tax dollars. Each individual will have to analyze the value of receiving a current income tax deduction for contributing to a traditional 401(k) versus the benefit of contributing to a Roth 401(k) and potentially having no taxation on future distributions from the plan.

A 401(k) that permits Roth after-tax contributions may also permit a participant to make an in-plan Roth rollover of all or a portion of their vested non-Roth account balance.

The Roth 401(k) can be implemented in conjunction with a new traditional 401(k) Plan, or as an addition to an existing 401(k) Plan. If you decide that a Roth 401(k) may be appropriate for your business, you should speak with your Third Party Administrator or Financial Advisor or Private Wealth Advisor to learn how to implement one.

POSSIBLE ADVANTAGES

- Employer may make matching contributions to encourage participation. All matching contributions are considered pretax.
- Roth 401(k) distributions are tax free if they meet the definition of a qualified distribution.

POSSIBLE DISADVANTAGES

- Roth 401(k) contributions are funded with after-tax dollars, so there is no current tax incentive to save in this way.

Safe Harbor 401(k) Plan

PROFILE

A Safe Harbor 401(k) may be a good choice for a business with employees that is establishing a plan for the first time. It may also be a good choice for a business that already has a traditional 401(k) Plan, but has had trouble meeting the annual nondiscrimination tests. By agreeing to specific contribution and vesting requirements, the plan is considered to satisfy the Actual Deferral Percentage Test and is exempt from the top-heavy rules. This will allow highly compensated employees to maximize their salary deferral contributions.

EMPLOYEE CONTRIBUTION LIMITS. In 2018, employees may defer up to 100% of compensation or $18,500, whichever is less. Individuals age 50 or older will be allowed to make special catch-up contributions of $6,000 in 2018.

The combination of employee and employer matching and/or profit sharing contributions that may be allocated to an employee may not exceed the lesser of 100% of compensation or $55,000 ($61,000 for individuals age 50 or older) in 2018.

EMPLOYER CONTRIBUTION LIMITS
A mandatory match or nonelective contribution is required. Each year, the employer may match employee contributions dollar-for-dollar up to 3% of compensation and $0.50 from 3% to 5% of compensation (subject to the $275,000 compensation cap), or make other qualifying matching contributions, or make a nonelective contribution of 3% of employee compensation (subject to the $275,000 compensation cap) for all eligible employees. Additional discretionary employer contributions are allowed.

VESTING. Safe Harbor 401(k) contributions are fully and immediately vested. Additional employer contributions beyond the required Safe Harbor contribution may be subject to a cliff or graded vesting schedule.

DEADLINE. New plans must generally be established at least three months before the plan year-end. Subject to certain exceptions, employees must be notified annually that Safe Harbor 401(k) provisions will be effective at least 30 days prior to the beginning of the plan year. This 30-day notification rule also applies to existing plans amended to incorporate the Safe Harbor 401(k) provisions.

POSSIBLE ADVANTAGES

- No actual deferral percentage testing.
- Safe Harbor 401(k) contributions are not subject to top-heavy rules.
- Loans and certain in-service withdrawals may be allowed.
- Reduced administrative requirements and expenses.

POSSIBLE DISADVANTAGES

- Mandatory employer contributions.
- Full and immediate vesting on Safe Harbor 401(k) contributions.
- Safe Harbor 401(k) employer matching contributions are limited to no more than 4%.

Defined Benefit Plans

Defined Benefit Plan

PROFILE

The Defined Benefit Plan may enable many business owners to contribute a larger portion of their business income to a qualified retirement plan. Current contributions are determined by an actuary based on a specified income requirement and other variables, such as compensation, investment performance, years until retirement and life expectancy after retirement.

The contributions to a Defined Benefit Plan, which must satisfy minimum funding standards, are mandatory. The actuary may include compensation up to $275,000 in 2018 when calculating the benefits and contributions for a Defined Benefit Plan. Generally speaking, a Defined Benefit Plan can provide for a lifetime annual income at retirement of up to the highest consecutive three-year average compensation or $220,000, whichever is less.

POSSIBLE ADVANTAGES

- Contribution levels may be substantially higher in a Defined Benefit Plan than in other types of retirement plans.
- Tends to favor older, more highly paid employees.
- Salary and years of service before the plan was established may be used to calculate benefits.
- Amounts forfeited by terminated employees may be automatically applied to reduce future contribution requirements or pay plan expenses.

POSSIBLE DISADVANTAGES

- Certain actuarial assumptions are used for determining the plan's funding. The plan's actual experience may differ and affect the level of future contributions.
- Insurance through the Pension Benefit Guaranty Corporation (PBGC) is mandatory, except those plans sponsored by professional corporations with 25 or fewer participants or that cover owners only.
- Minimum funding standards apply to the plan.
- You must provide the specified benefit to all participants regardless of the actual investment performance of the plan. Poor investment performance could result in increased contribution requirements.
- In-service distributions are not permitted before age 62.
- Employer needs sufficient cash flow each year to meet minimum funding requirements to avoid tax penalties for underfunding.

Investments and Retirement Plan Administration

While you are deciding on the specific retirement program design for your business, you will also want to consider the type of investment options that will be incorporated into your program and how the program will be administered. Record-keeping and plan maintenance are important ongoing responsibilities that should be addressed at the outset, to ensure that the program operates efficiently and complies with all current and future regulations.

As the sponsoring employer, you may assume some level of fiduciary responsibility for plan investments.

As the sponsoring employer, you may assume some level of fiduciary responsibility for plan investments. The exact extent of your liability depends on a number of factors, including whether you select the investment choices or hire professional money managers to manage a single pool of money. If you offer a plan that is structured with individual accounts, employees may be responsible for making investment selections, which in turn may reduce your fiduciary concerns. However, you may still be responsible for selecting one or more investment options for your employees to choose from, and thus you may need to do appropriate due diligence on the selections and monitor their performance regularly. If appropriate, your Morgan Stanley Financial Advisor or Private Wealth Advisor can assist you in designing an investment policy statement. You should consult your legal advisors with respect to your fiduciary duties under the various available types of plans.

401(k) Plan

If you are offering a 401(k) Plan, it is very common to engage a record keeper that has established relationships with multiple registered investment companies, and that can offer integrated or bundled record-keeping and investment services. Frequently, a secure website can be created to offer employees access to general and personal plan information as well as the ability to manage their plan account. Services may also include asset allocation advice for participants.

Defined Benefit Plan

Defined Benefit Plans require the services of an actuary to determine annual contributions, complete regulatory filings and determine final retirement benefits for departing employees. Many retirement plan administrators will provide actuarial services as part of their service package.

Establishing a retirement plan involves the assumption of legal and other duties and responsibilities. The level of your involvement will depend in part on the type of plan you select. We strongly recommend that you consult with your legal and tax advisors during the plan and investment selection process. Furthermore, you should also discuss with these advisors the level of protection that the various types of plans may provide from the claims of creditors.

Selected Retirement Plans for Your Business (2018)

	IRA-Based Plans		Defined Benefit Plans
	SEP	**SIMPLE IRA**	
Key Advantage	Easy to set up and maintain.	Salary reduction plan with little administrative paperwork.	Provides a fixed, predetermined benefit for employees.
Employer Eligibility	Any employer with or without employees.	Any employer with or without employees. However, employers must have 100 or fewer employees and not currently maintain another retirement plan.	Any employer with or without employees.
Plan Establishment Through Morgan Stanley/ Annual 5500 Filing (Neither Morgan Stanley nor any of its affiliates are responsible for preparing IRS Form 5500.)	May use SEP Plan Employer Adoption Agreement and Traditional IRA Application to establish the plan. No annual filing requirement for employer, assuming disclosure obligations are met.	May use SIMPLE IRA Plan Employer Adoption Agreement and SIMPLE IRA Application to establish the plan. No annual filing requirement for employer.	May use prototype document offered through Morgan Stanley. Annual filing of Form 5500 is required, unless plan covers only owners/partners and their spouses, in which case assets of all owner/partner and spouse-only plans maintained by the employer combined must be over $250,000 before Form 5500 EZ filing is required.
Contributors to the Plan	Employer contributions only.	Employee salary reduction contributions and employer contributions.	Funded by employer. An actuary must determine annual contributions.
Maximum Annual Contribution	**Employee**: No employee contributions. **Employer**: 25% of each eligible employee's compensation, or $55,000, whichever is less. If the plan sponsor is a self-employed individual or a partnership, then the owner or partners contributions will generally be limited to the lesser of (a) $55,000, or (b) 20% of earned income (e.g., gross less business expenses) less one-half of self-employment taxes, and without deducting contributions for the self-employed individual/partner from the business that has the plan. Compensation is subject to $275,000 annual cap.	**Employee**: $12,500 in 2018. Individuals age 50 and older may add an additional $3,000 as a catch-up contribution. **Employer**: Either matches employee contributions 100% of first 3% of compensation (can be reduced to as low as 1% in any two out of five years); or contributes 2% of each eligible employee's compensation. Compensation subject to $275,000 annual cap for 2% contribution only.	**Employer**: Compensation taken into account subject to $275,000 annual cap. Annual contributions may exceed other plan type contribution limits.
Contributor's Options	Employer can decide whether to make contributions year-to-year.	Employee can decide how much to contribute pursuant to a salary reduction agreement. Employer must make matching contributions or contribute 2% of each eligible employee's compensation.	Contributions determined annually by actuary.
Minimum Employee Coverage Requirements	Must be offered to all employees who are at least 21 years of age, employed by the employer for three of the last five years and have met the minimum compensation requirement ($600 for 2018). Exceptions apply.	Must be offered to all employees who have compensation of at least $5,000 in any prior two years and are reasonably expected to earn at least $5,000 in the current year. Exceptions apply.	Generally, must be available to all employees at least 21 years of age who worked at least 1,000 hours in a 12-month period. Exceptions apply.
Withdrawals, Loans and Payments	Withdrawals permitted any time, subject to federal income taxes. Early withdrawals subject to 10% penalty tax, unless exception applies.	Withdrawals permitted any time, subject to federal income taxes. Early withdrawals subject to a penalty tax of 25% in first two years of participation, 10% thereafter, unless exception applies.	Payment of benefits after a specified event occurs (retirement, plan termination, etc.), subject to federal income taxes. Plan may permit loans. Early withdrawals subject to 10% penalty tax, unless exception applies.
Vesting	Contributions are immediately 100% vested.	Employer and employee contributions are immediately 100% vested.	May vest over time according to plan terms, over a period of not more than seven years of service.

Defined Contribution Plans

SAFE HARBOR 401(K)	PROFIT SHARING	401(K)
Permits maximum salary deferrals by employees without annual nondiscrimination testing.	Permits employer to make contributions for employees.	Permits salary deferrals by employees.
Any employer with one or more employees.	Any employer with or without employees.	Any employer with or without employees.
May use prototype document offered through Morgan Stanley. Annual filing of Form 5500 is required, unless plan covers only owners/partners and their spouses, in which case assets of all owner/partner and spouse-only plans maintained by the employer combined must be over $250,000 before Form 5500 EZ filing is required.	May use prototype document offered through Morgan Stanley. Annual filing of Form 5500 is required, unless plan covers only owners/partners and their spouses, in which case assets of all owner/partner and spouse-only plans maintained by the employer combined must be over $250,000 before Form 5500 EZ filing is required.	May use prototype document offered through Morgan Stanley. Annual filing of Form 5500 is required, unless plan covers only owners/partners and their spouses, in which case assets of all owner/partner and spouse-only plans maintained by the employer combined must be over $250,000 before Form 5500 EZ filing is required.
Employee salary reduction contributions and employer contributions.	Employer contributions only.	Employee salary reduction contributions and/or employer contributions.
Employee: $18,500 in 2018. Additional salary deferral contributions may be made by participants age 50 or over ($6,000 in 2018). **Employer/Employee Combined**: Up to the lesser of 100% of compensation or $55,000 for 2018 ($61,000 if age 50). Employer can deduct employer contributions that do not exceed 25% of each eligible employee's compensation, or $55,000, whichever is less. If the plan sponsor is a self-employed individual or a partnership, then the owner or partners contributions will generally be limited to the lesser of (a) $55,000, or (b) 20% of earned income (e.g., gross less business expenses) less one-half of self-employment taxes, and without deducting contributions for the self-employed individual/partner from the business that has the plan. Compensation is subject to a $275,000 annual cap.	**Employee:** No employee contributions. **Employer**: Up to the lesser of 100% of compensation or $55,000 for 2018. Employer can deduct amounts that do not exceed 25% of each eligible employee's compensation, or $55,000, whichever is less. If the plan sponsor is a self-employed individual or a partnership, then the owner or partners contributions will generally be limited to the lesser of (a) $55,000, or (b) 20% of earned income (e.g., gross less business expenses) less one-half of self-employment taxes, and without deducting contributions for the self-employed individual/partner from the business that has the plan. Compensation is subject to a $275,000 annual cap.	**Employee:** $18,500 in 2018. Additional salary deferral contributions may be made by participants age 50 or over ($6,000 in 2018). **Employer/Employee Combined**: Up to the lesser of 100% of compensation or $55,000 for 2018 ($61,000 if age 50). Employer can deduct amounts that do not exceed 25% of each eligible employee's compensation, or $55,000, whichever is less. If the plan sponsor is a self-employed individual or a partnership, then the owner or partners contributions will generally be limited to the lesser of (a) $55,000, or (b) 20% of earned income (e.g., gross less business expenses) less one-half of self-employment taxes, and without deducting contributions for the self-employed individual/partner from the business that has the plan. Compensation is subject to a $275,000 annual cap.
Employee can decide how much to contribute pursuant to a salary reduction agreement. The employer must make either specified matching contributions or a 3% contribution to all participants. The employer may also make discretionary profit sharing contributions.	Employer makes contributions as set by plan terms.	Employee can decide how much to contribute pursuant to a salary-reduction agreement. The employer can make additional contributions, including matching contributions, as set by plan terms.
Generally, must be available to all employees at least 21 years of age who worked at least 1,000 hours in a 12-month period. Exceptions apply.	Generally, must be available to all employees at least 21 years of age who worked at least 1,000 hours in a 12-month period. Exceptions apply.	Generally, must be available to all employees at least 21 years of age who worked at least 1,000 hours in a 12-month period. Exceptions apply.
Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.), subject to federal income taxes. Plan may permit loans and hardship withdrawals. Early withdrawals subject to 10% penalty tax, unless exception applies.	Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.), subject to federal income taxes. Plan may permit loans and hardship withdrawals. Early withdrawals subject to 10% penalty tax, unless exception applies.	Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.), subject to federal income taxes. Plan may permit loans and hardship withdrawals. Early withdrawals subject to 10% penalty tax, unless exception applies.
Employee salary deferrals and any Safe Harbor contributions are immediately 100% vested. Other employer contributions may vest over time according to plan terms, over a period of not more than six years of service.	May vest over time according to plan terms, over a period of not more than six years of service.	Employee salary deferrals are immediately 100% vested. Employer contributions may vest over time according to plan terms, over a period of not more than six years of service.

Nonqualified Plans

Benefit limits, contribution limits and discrimination testing can restrict a qualified plan's ability to compensate selected employees. Fortunately, there are tax-efficient and flexible ways to reward and retain these professionals.

Nonqualified Deferred Compensation (NQDC)

NQDC is an unsecured promise to pay future compensation. Under many NQDC arrangements, the employee agrees to defer the receipt of taxable wages, and the business agrees to make payments at an agreed-upon time in the future, such as retirement, death or disability.

Many companies find it advantageous to purchase permanent (cash value) life insurance on the employee to help fund the deferred compensation benefit, but there is no requirement to do so.

Employer

POSSIBLE ADVANTAGES

- Unlike qualified plans, a nonqualified deferred compensation plan may provide greater benefits to selected employees.
- Can supplement qualified plans.
- Employer can select employees who will be eligible to participate in the plan.
- Plan can be structured to impose certain conditions on the receipt of deferred compensation (e.g., age, service).

POSSIBLE DISADVANTAGES

- Company cannot deduct the deferred compensation amount until paid to the employee at a future date.
- Companies with publicly traded securities may have to register with the SEC.
- Plans must be in writing and are subject to the complex provisions of the Internal Revenue Code.

Employee

POSSIBLE ADVANTAGES

- The employee does not pay income tax until he/she receives the money.

POSSIBLE DISADVANTAGES

- Employee's benefits are subject to the claims of the employer's creditors (including bankruptcy creditors).
- Deferred compensation may be lost if employee does not fulfill the specified years of participation or meet a specified event such as retirement.
- Tax-free rollovers are not available.

How Morgan Stanley Can Help

A Morgan Stanley Financial Advisor or Private Wealth Advisor can help you in connection with choosing and setting up a retirement program for your business. **Here's how:**

SETTING A RETIREMENT INCOME GOAL

Your Morgan Stanley Financial Advisor or Private Wealth Advisor will help you figure out how much you'll need to support your retirement lifestyle, how much to save in order to meet that goal and a plan which can help you do so.

DESIGNING A PLAN

We can help you design a plan that will reflect your current business profile and retirement savings goals, and address the needs of your employees.

SELECTING INVESTMENTS

Your Morgan Stanley Financial Advisor or Private Wealth Advisor will help you choose appropriate plan investments from a broad range of products.

REPORTING PERFORMANCE

If your assets are custodied with us, Morgan Stanley will report regularly on your plan's investment performance in statements you can access any time at www.morganstanley.com.

GOING BEYOND RETIREMENT

Your Morgan Stanley Financial Advisor or Private Wealth Advisor offers analyses and strategies that go beyond investing to include additional issues of importance to your future, such as:

- Lifestyle assessment.
- Beneficiary audit.
- Review of your risks and how you are protected against them.
- Help with Medicare and Social Security elections and income planning.
- Help you address other pertinent situations that you may have planned for or that occur unexpectedly.

Our approach is based on a more in-depth knowledge of you. The difference this makes will be apparent in the guidance we deliver: A clear roadmap that helps you get to where you want to go and makes sure that all the pieces of your financial life — accounts, policies and properties—work together to help you achieve what is most important to you and your family.

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