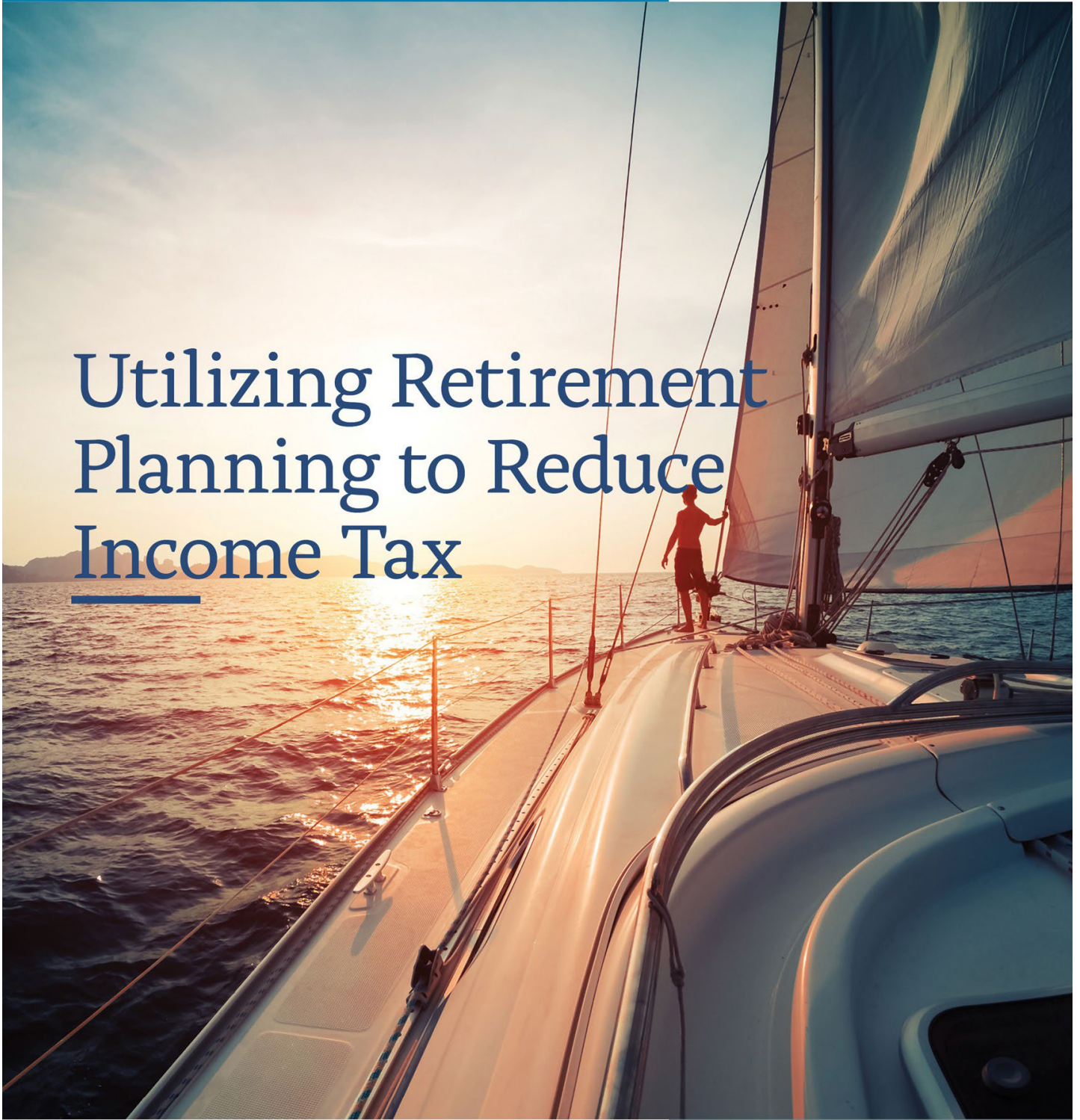




THE
NAUTILUS
GROUP®

Utilizing Retirement Planning to Reduce Income Tax



Utilizing Retirement Planning to Reduce Income Tax

Retirement planning - In general

Reducing taxable income provides an opportunity to reduce one's tax liability. Though many taxpayers relish the idea of reducing income taxes, most prefer not to reduce income to do so. Engaging in retirement planning allows individuals to save for retirement in a manner that reduces current taxable income, thereby reducing income tax liability. Generally, when contributions are made to a retirement plan, the employee does not include the amount of the contribution in his or her taxable income, and the employer receives an immediate income tax deduction. Additionally, earnings on retirement plan balances are generally tax-deferred.

What types of qualified retirement plans exist?

There are two categories of qualified retirement plans: defined benefit plans and defined contribution plans.

Defined Benefit Plans

Defined benefit plans specify the benefits payable to a participant at retirement. Each year the employer must contribute the actuarially determined amount necessary to provide the participant with the specified retirement benefit. With a defined benefit plan, the employer bears the investment risk and rewards of the plan. Defined benefit plans provide relatively greater income tax benefits for senior employees as compared to younger ones (since larger contributions are required to accumulate the necessary amount to provide the employee with the specified benefit).

Defined Contribution Plans

Unlike a defined benefit plan, a defined contribution plan does not specify the benefit a participant receives. With a defined contribution plan, the employer and/or the employee contributes a defined dollar amount or a percentage of compensation. The balance the participant receives will depend on contributions and investment performance. The employer is not responsible for the investment risk associated with a defined contribution plan.

A profit-sharing plan is a type of defined contribution plan that provides the employer with discretion in determining how much to contribute to the plan on an annual basis. Contributions to a profit-sharing plan will be allocated among the participant employees' respective accounts. A 401(k) plan is generally a profit-sharing plan which also provides for elective deferrals by the participants, i.e., participating employees would elect to either receive an amount from the company in cash (subject to current income taxes), or have the amount contributed to the company's 401(k) (not subject to current income taxes).

How much money can be contributed to a qualified retirement plan?

Defined benefit plan. Deductible contributions to a defined benefit plan are based on the amount necessary to fund the benefit promised under the plan. Internal Revenue Code (IRC) §415 imposes a limit on the maximum benefit a participant may receive under a defined benefit plan to the lesser of 100% of the participant's average compensation for his/her three highest years, or \$290,000 (in 2026).

Defined contribution plan. IRC §415 limits annual contributions to a defined contribution plan to the lesser of 100% of the employee's compensation or \$72,000 (in 2026), plus catch-up contributions. The elective deferral limit for 401(k)s (the amount that an employee can elect to have paid to his/her 401(k) as opposed to receiving as current income) is \$24,500 (in 2026). Employees over the age 50 are allowed additional "catch-up" contributions of \$8,000 (in 2026). For individuals who attain ages 60, 61, 62, or 63 during 2026, the catch-up contribution limit remains \$11,250.

How can an individual retirement account help reduce income taxes?

In addition to a traditional defined benefit or defined contribution plan, individual retirement accounts (IRAs) can be used to fund retirement in an income tax-efficient manner.

Generally, any individual with compensation may establish an IRA. An IRA is a trust or custodial account that holds contributed funds for the benefit of the individual who sets up the account. Contributions to an IRA can only be made if the individual has compensation and contributions can be deductible or nondeductible. Married individuals filing jointly may contribute to an IRA based on a spouse's compensation. Like qualified retirement plans, the individual owner of the account is not taxed until distributions are made from the account.

An individual can contribute up to \$7,500 to a traditional IRA (in 2026). Individuals age 50 or older may make an additional catch-up contribution of \$1,100. If an individual does not participate in an employer-sponsored qualified retirement plan, contributions to a traditional IRA are generally deductible. If the individual participates in an employer-sponsored plan, deductibility is phased out based on adjusted gross income (AGI): married individuals filing jointly are subject to phase-out between \$129,000 and \$149,000 (2026) and single or head of household taxpayers are subject to phase-out between \$81,000 and \$91,000 (2026). Different rules apply if one spouse participates in an employer-sponsored plan.

How can small business owners utilize IRAs to save for retirement in a tax-efficient manner?

Employers may establish certain IRA-based plans for employees that permit higher contribution limits than traditional IRAs and generally involve lower setup and administrative costs than qualified retirement plans.

Simplified Employee Pension (SEP) Plans

A SEP is an IRA funded entirely by employer contributions. Employer contributions are excluded from employees' gross income and are deductible by the employer. An employer may contribute the lesser of 25% of an employee's compensation or \$72,000 (for 2026). Contribution percentages must be uniform for all eligible employees. Generally, employees age 21 or older who performed services in at least three of the preceding five years and earned more than \$800 (for 2026) must be included.

SIMPLE IRAs

A SIMPLE IRA allows both employer and employee contributions. Employees make salary deferral contributions that are excluded from income and deductible by the employer. Employers must generally make either: 1) a matching contribution of up to 3% of compensation, or 2) a non-elective contribution of 2% of compensation for all eligible employees. Employers with 26–100 employees may offer enhanced contribution options under current law. For 2026, employees may defer up to \$17,000 to a SIMPLE IRA. Employees age 50 or older may make additional catch-up contributions of \$4,000. For individuals who attain ages 60, 61, 62, or 63 during 2026, the catch-up contribution limit remains \$5,250. Cost-of-living adjustments apply beginning in 2026.

As a result of H.R. 1 of the 119th Congress (commonly known as the One Big Beautiful Bill Act), the estate, gift, and generation skipping tax exemptions amounts enacted under the Tax Cuts and Jobs Act of 2017 were made permanent. Effective January 1, 2026, the exemption amount will be \$15 million per person (\$30 million for a married couple), with annual adjustments for inflation. For asset transfers in excess of the applicable exemption amount and otherwise subject to such taxes, the highest applicable federal tax rate remains at 40%. In addition, under different rates, rules, and exemption amounts (if any), there may be state and local estate, inheritance, or gift taxes that apply in your circumstances. Please consult your own tax or legal advisor for advice pertaining to your specific situation. This tax-related discussion reflects an understanding of generally applicable rules and was prepared to assist in the promotion or marketing of the transactions or matters addressed. It is not intended (and cannot be used by any taxpayer) for the purpose of avoiding any IRS penalties that may be imposed upon the taxpayer. New York Life Insurance Company, its agents and employees may not give legal, tax or accounting advice. Individuals should consult their own professional advisors before implementing any planning strategies. These materials are prepared by The Nautilus Group®, a service of New York Life Insurance Company, and are made available to all Nautilus Group member agents and, as a courtesy, to select agents of New York Life Insurance Company. SMRU 5018192 Exp. 1/31/2029