

Comparing retirement plans



Retirement plan options to consider

Determine the plan type that will best meet your company's needs.

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

Investors should carefully consider the objectives, risks, charges and expenses of the American Funds and, if applicable, any other investments in their plan. This and other important information is contained in the funds' prospectuses, which are available from their plan's financial representative and on the Web at AmericanFundsRetirement.com. It's important that investors read the prospectuses carefully before investing. Investors should also consider consulting with their personal tax adviser.

Retirement plan overview

Choosing the most appropriate retirement plan for your organization is one of the most important benefit decisions you'll make as a plan sponsor. And while the number of different plan types in the marketplace today can be daunting, the wide variety of features and benefits they offer make it easier than ever to create a plan that best suits your organization's objectives and budget. This brochure provides you with details and key characteristics of the most popular employer-sponsored retirement plans.

American Funds encourages you to review this brochure carefully and then discuss with your plan's financial professional the plan types and features in which you're most interested.

2008 contributions at a glance

Maximum participant contribution amounts for 2008

401(k) and 403(b) contributions*	\$15,500
401(k) and 403(b) age-based catch-up contributions*	\$ 5,000
SIMPLE IRA contributions	\$10,500
SIMPLE IRA catch-up contributions	\$ 2,500

*401(k) and 403(b) contributions and age-based catch-up contributions can be pretax, Roth after-tax or both, depending on the plan terms. Certain 403(b) plan participants may be able to take advantage of a special service-based catch-up contribution in addition to the age-based (age 50 or older) catch-up.

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Plan type >	SEP	SIMPLE IRA
Employer characteristics	<ul style="list-style-type: none"> • All taxable businesses, but appeals to small employers • Government entities • Tax-exempt organizations 	<ul style="list-style-type: none"> • No more than 100 employees • All taxable businesses • Government entities • Tax-exempt organizations
Who MUST be covered (plan sponsors may choose more flexible requirements to include younger employees and those with fewer hours of service)	Any employee who has worked for three out of the past five years and is age 21 or older; can exclude certain employees	Any employee earning \$5,000 during any two preceding years and who is expected to earn \$5,000 in the current year; can exclude certain employees
Maximum total plan contribution that the employer may deduct	25% of participant's pay or \$46,000 ¹ ; whichever is less ²	\$26,000 (\$10,500 deferral plus \$10,500 maximum match; \$2,500 catch-up contribution and \$2,500 matching contribution, if applicable; subject to percentage of pay chosen by the employer, but not greater than 3%)
Maximum annual allocation to participant's account (includes both employer and participant contributions)	25% of participant's pay or \$46,000 ¹ ; whichever is less ²	\$26,000
Maximum annual participant deferral (cannot exceed 100% of pay)	No participant deferral contributions allowed	\$10,500; catch-up contribution of \$2,500 if age 50 or older
Contribution allocation formulas	<ul style="list-style-type: none"> • Pro rata allocation³ • Integrated with Social Security 	N/A
Required employer contribution	None; a minimum allocation may be required if a contribution is made and plan is top-heavy ⁴	<ul style="list-style-type: none"> • Dollar-for-dollar match up to 3% of pay⁵ or • 2% of gross pay up to \$230,000 for all eligible participants who earn at least \$5,000 during the year
Vesting (participant contributions are always 100% vested)	Immediate 100% vesting	Immediate 100% vesting
Testing required ADP = actual deferral percentage ACP = actual contribution percentage 415 = maximum annual additions	Top-heavy: Yes ⁴ ADP: N/A ACP: N/A 415: Yes	Top-heavy: No ⁴ ADP: No ACP: No 415: No
Who controls distributions	Participant	Participant
Participant loans	N/A	N/A
Deadline for plan establishment	Tax-filing deadline, plus extensions	Can be established anytime between January 1 and October 1
Disclosure	<ul style="list-style-type: none"> • Summary plan description 	<ul style="list-style-type: none"> • Summary plan description • Notice of contribution intent
Cost	\$10 per participant	\$10 per participant
Advantages of this type of plan	<ul style="list-style-type: none"> • Minimal paperwork and expense • Minimal tax filing • No requirement to make ongoing contributions 	<ul style="list-style-type: none"> • Minimal paperwork and expense • Minimal tax filing • Participant deferral of current income taxes • More flexibility with contribution amounts due to increase in deferral limit

When participants take before-tax contributions out of their retirement plans, 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).

¹The DC annual additions limit is effective for limitation years ending in the calendar year. The dollar limit is increased by the amount of the applicable catch-up contribution.

²Grandfathered SARSEP rules may differ slightly; please consult *IRS Publication 560*.

³Pro rata allocation: based on a ratio of participant's compensation over total compensation for all participants.

⁴A plan is top-heavy if, on the determination date, the total value of the accounts of all key employees is greater than 60% of the total value of the accounts of all employees.

401(k)*	401(k) with traditional safe harbor provisions	401(k) with auto-enroll safe harbor provisions (QACA ¹⁰)
<ul style="list-style-type: none"> •All taxable businesses •Tax-exempt organizations 	<ul style="list-style-type: none"> •All taxable businesses •Tax-exempt organizations 	<ul style="list-style-type: none"> •All taxable businesses •Tax-exempt organizations
Any employee with 1,000 hours of service within one year and who is age 21 or older; can exclude certain employees; automatic contribution arrangement feature available	Same rules as 401(k)	Same rules as 401(k); plan must use automatic contribution arrangement feature to use auto-enroll safe harbor ¹⁰
25% of total eligible payroll (maximum eligible pay per participant is \$230,000) plus the amount of elective deferrals contributed	Same limits as 401(k)	Same limits as 401(k)
100% of participant's total pay or \$46,000, [†] whichever is less	Same limits as 401(k)	Same limits as 401(k)
Up to \$15,500 ⁶ ; catch-up contribution of \$5,000 if age 50 or older. Annual participant deferral can be before-tax, Roth after-tax or both, depending on plan terms.	Same limits as 401(k)	Minimum deferrals of 3% to maximum of 10% of employee compensation with annual automatic increases of 1 percentage point, if starting at less than 6%. Same limits as 401(k).
<ul style="list-style-type: none"> •Pro rata allocation³ •Integrated with Social Security •Other allocation formulas available 	Safe harbor contributions are either matching or nonelective (see below)	Safe harbor contributions are either matching or nonelective (see below)
Discretionary, unless the plan is top-heavy ⁴	One of the following ⁸ : <ul style="list-style-type: none"> •Basic match formula •Enhanced match formula •Nonelective contribution matching formula is higher than with auto-enroll safe harbor 	One of the following ⁹ : <ul style="list-style-type: none"> •Basic match formula •Enhanced match formula •Nonelective contribution •Basic matching formula is lower than with traditional 401(k) safe harbor
Vesting schedules available	Immediate 100% vesting on safe harbor contributions	2-year cliff vesting may be available with auto-enroll safe harbor
Top-heavy: Yes ⁴ ADP: Yes ACP: Yes 415: Yes	Top-heavy: No ⁴ ADP: No ACP: No 415: Yes	Top-heavy: No ⁴ ADP: No ACP: No 415: Yes
Employer, through the plan terms	Employer, through the plan terms	Employer, through the plan terms
Yes	Yes	Yes
Last day of employer's fiscal year, but not later than commencement of participant contributions ¹²	First day of plan year	First day of plan year
<ul style="list-style-type: none"> •Summary plan description •Notice of automatic enrollment, if applicable •Notice of QDIA,¹¹ as applicable 	<ul style="list-style-type: none"> •Summary plan description •Notice of contribution intent •Notice of QDIA,¹¹ as applicable 	<ul style="list-style-type: none"> •Summary plan description •Notice of contribution intent •Notice of automatic enrollment •Notice of QDIA,¹¹ as applicable
Trust and recordkeeping fees ⁷	Trust and recordkeeping fees ⁷	Trust and recordkeeping fees ⁷
<ul style="list-style-type: none"> •Participant deferral of current income taxes available or pre-payment of income taxes when using Roth option •EACAs¹¹ have six months after plan year-end to complete testing •EACAs have a 90-day window to return automatic deferral contributions to participants who failed to opt out of the plan 	<ul style="list-style-type: none"> •No discrimination testing when safe harbor rules are met •Participant deferral of current income taxes available or pre-payment of income taxes when using Roth option 	<ul style="list-style-type: none"> •No discrimination testing when safe harbor rules are met •Participant deferral of current income taxes available or pre-payment of income taxes when using Roth option •QACAs that are EACAs have a 90-day window to return automatic deferral contributions to participants who failed to opt out of the plan¹¹

* We can help you establish single-participant 401(k) plans. Advisers can call our Service Center to discuss third-party providers and options.

⁵ Match may be reduced to as low as 1% for two of the five years.

⁶ Salary deferrals into other qualified retirement plans count toward the \$15,500 personal annual maximum contribution amount.

⁷ Fees may be higher for cross-tested plans.

⁸ Basic match: 100% of participant contributions up to 3% of pay, plus 50% of participant contributions up to the next 2% of pay.

Enhanced match: 100% of participant contributions, but not less than 4% of pay or more than 6%; or A% of participant contributions up to the first B% of pay,

403(b)	Profit sharing/Money purchase	Defined benefit pension
<ul style="list-style-type: none"> Organizations qualified under Internal Revenue Code section 501(c)(3); i.e., nonprofit organizations, public school systems and churches 	<ul style="list-style-type: none"> All taxable businesses Government entities Tax-exempt organizations 	<ul style="list-style-type: none"> All taxable businesses Government entities Tax-exempt organizations
<ul style="list-style-type: none"> After the first employee is allowed to participate, all other employees who want to contribute at least \$200 per year must be allowed to participate, regardless of years of service Automatic contribution arrangement feature available (see 401(k) column) 	Any employee with 1,000 hours of service within one year ¹⁰ and who is age 21 or older; can exclude certain employees	Any employee with 1,000 hours of service within one year ¹⁰ and who is age 21 or older; can exclude certain employees
Tax deduction is not an issue for tax-exempt organizations	25% of total eligible payroll (maximum eligible pay per participant is \$230,000)	Contribution is limited to amount necessary to fund future benefits (maximum eligible pay per participant is \$230,000)
100% of participant's total pay or \$46,000; ¹ whichever is less	100% of participant's total pay or \$46,000; ¹ whichever is less	No individual accounts
Up to \$15,500 ⁶ ; catch-up contribution of \$5,000 if age 50 or older Annual participant deferral can be before-tax, Roth after-tax or both, depending on plan terms	No participant contributions allowed	No participant contributions allowed
Similar to 401(k)	PS/MP: Pro rata allocation ³ ; integrated with Social Security PS/MP: Can vary by employee group or class	N/A
Safe harbor can be discretionary or nondiscretionary	PS: Flexible contribution amount allowed each year (preset amount not required); however, employer must make "substantial and recurring" contributions MP: Nondiscretionary; amount stated in plan document	Contributions based on anticipated payouts during retirement and actuarial assumptions
Vesting schedules available	Vesting schedules available	Vesting schedules available
Top-heavy: No ⁴ ADP: N/A ACP: Yes 415: Yes	Top-heavy: Yes ⁴ ADP: N/A ACP: N/A 415: Yes	Top-heavy: Yes ⁴ ADP: N/A ACP: N/A 415: Yes
Employer, through the plan terms	Employer, through the plan terms	Employer, through the plan terms
Yes	Yes	Yes
Last day of employer's fiscal year, but not later than commencement of participant contributions	Last day of employer's fiscal year	Last day of employer's fiscal year
<ul style="list-style-type: none"> Summary plan description and notice of QDIAs,¹¹ as necessary 	<ul style="list-style-type: none"> Summary plan description 	<ul style="list-style-type: none"> Summary plan description
Custodian and recordkeeping fees	Trust and recordkeeping fees ⁷	Trustee and actuarial fees
<ul style="list-style-type: none"> More flexibility with contribution amounts due to increase in deferral limit Participant deferral of current income taxes or pre-payment of income taxes for Roth option 	PS: Flexible contributions MP: Specified level contributions	<ul style="list-style-type: none"> Annual benefit on retirement can be as high as 100% of highest three-year average pay, up to \$185,000 Provides guaranteed annuity payments for life

plus C% of participant contributions up to the next D% of pay (C% may not be greater than A% and the sum of B% plus D% may not be greater than 6%).

Nonelective contribution: 3% of pay for all eligible employees, including those who do not contribute.

⁹ Basic match: 100% of first 1% of participant deferral, plus 50% on next 5% of deferral (3.5% total match on 6% deferral).

Enhanced match: See footnote 8.

¹⁰ Plans with a two-years-of-service eligibility requirement must offer immediate 100% vesting.

¹¹ Qualified automatic contribution arrangement (QACA); elective automatic contribution arrangement (EACA); qualified default investment alternative (QDIA).

¹² Proposed regulations are not clear about EACA establishment date.

Our shared commitment

As a retirement plan sponsor, you've made a commitment to help your employees plan and invest for a secure financial future. In turn, American Funds, along with your plan's financial professional, is dedicated to helping you deliver on your commitment and to making your role as a plan sponsor easier. With American Funds, you get a rare combination of strengths.

- **Focus**

We are wholly dedicated to the analysis, management and servicing of investments that make up a full spectrum of offerings for retirement plan investors.

- **Experience**

A recognized leader in our industry for more than 75 years, we are among the top three managers of defined-contribution assets (*Pensions & Investments*, 2006). In fact, more than 40,000 employers have chosen an American Funds retirement plan solution.

- **Results**

With more than \$1 trillion in assets under management (as of 12/31/2007), our results have earned the trust and loyalty of millions of investors saving for retirement. More than half of our shareholder accounts are held by retirement plan participants and IRA owners.

For more information about American Funds or the plan types featured in this brochure, contact your financial professional.

Visit us at AmericanFundsRetirement.com.

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