

# Income Replacement from 401(k)

## The Issue

Executives' retirement objectives cannot be fulfilled through qualified retirement plans. They need additional sources of retirement income to maintain their lifestyle. In addition, executives are living longer and retiring earlier. Coupled with those issues is the fact that executives are spending fewer years at the same company to accumulate retirement benefits.

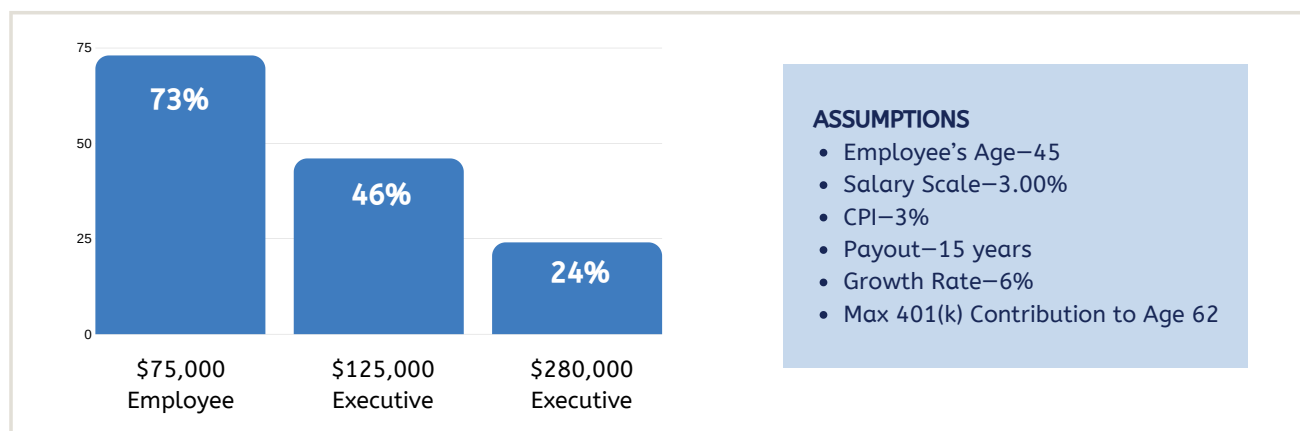
## Insufficient Retirement Income

Qualified plans are incapable of providing sufficient retirement income due to the many limitations on plan benefits for highly compensated individuals.

- Pretax 401(k) employee contributions are limited to \$19,500 in 2021.
  - Nondiscrimination rules often further limit 401(k) contributions.
- The amount of compensation that can be taken into account for purposes of benefits and contributions under qualified retirement plans is limited to \$290,000 in 2021.
- Lower-paid employees receive a higher percentage of their retirement income from Social Security. These benefits are indexed and partially nontaxable.
- Lower-paid employees receive a higher percentage of their retirement income from qualified plans.

## Example

### Income Replacement Ratio Potential from a 401(k) Plan



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