SIMPLE Retirement Plans…An Overview

Description:

A Savings Incentive Match Plan for Employees, or SIMPLE, retirement plan can be set up by employers with 100 or fewer employees for the purpose of enabling employees to defer a portion of their salary on a before-tax basis to a retirement plan. Employers must also make matching contributions up to specified limits.

Types of SIMPLE Plans:

SIMPLE IRA Plan: Employees may make elective salary deferrals up to a specified maximum amount to an IRA owned by the employee. The employer is generally required to match an employee's elective salary deferral up to an amount not exceeding 3% of the employee's compensation. Instead of matching contributions, the employer can make a non-elective contribution of 2% of compensation on behalf of each eligible employee with at least $5,000 in compensation.

SIMPLE 401(k) Plan: A SIMPLE 401(k) plan operates much the same as a regular 401(k) plan. By complying with specific contribution and vesting requirements, however, an employer that adopts a SIMPLE 401(k) plan does not have to comply with certain 401(k) plan nondiscrimination and top-heavy rules.

Advantages:

SIMPLE plans have minimal administrative and reporting requirements.

Owner-employees and other highly-paid employees are not restricted as to the amount they can contribute to a SIMPLE plan, as they may be in a 401(k) plan due to low participation in the 401(k) plan by lower-paid employees.

The employee directs how his/her contributions are invested and assumes the risk of investment performance.

Disadvantages:

Virtually all employees are eligible to participate in a SIMPLE plan.

All SIMPLE plan contributions, including those made by the employer, vest fully and immediately to the employee.

SIMPLE plans tend to be more advantageous for younger employees with more time until retirement.