How a SIMPLE IRA Works

EMPLOYER

- SIMPLE plans are available only to firms with 100 employees or less and which do not maintain another qualified retirement plan.
- Employer generally must match employee contributions dollar for dollar up to 3% of compensation. Alternatively, employer may choose to contribute 2% of compensation to all eligible employees, whether they defer or not.

SIMPLE-IRA

- A separate IRA (traditional or Roth) exists for each participant.
- Earnings accumulate tax deferred.
- Most plans are self-directed (employee controls investment).
- Investment risk remains on employee.

EMPLOYEE

- Employee may elect to defer a percentage of salary.
- Contributions to a traditional SIMPLE IRA are pre-tax. Contributions to a Roth SIMPLE IRA are after-tax.
- For 2023, elective contributions cannot exceed the lesser of $15,500 or 100% of compensation. For those age 50 and older, additional "catch-up" contributions of $3,500 may be made.

EARLY WITHDRAWAL

- A 25% penalty generally applies to all taxable withdrawals within the first two years, decreasing to 10% after two years.
- Exceptions to the 25%/10% penalty are available.

RETIREMENT

- Traditional SIMPLE IRA – Required minimum distributions must begin by a specified date.[1]
- Roth SIMPLE IRA – No RMDs are required during the lifetime of the account owner. "Qualified" distributions are received income tax free.[2]

DEATH

- Value of IRA is included in owner's gross estate.
- Proceeds can pass to beneficiaries with payments over varying time periods.
- Income and estate taxes can severely reduce IRA funds left to nonspousal beneficiaries.

[1] Under the SECURE 2.0 Act, the age to begin RMDs increases to age 73 for those who turn 72 after 2022 and 73 before 2033; and to age 75 for those who turn 74 after 2032. For non-owner employees, distributions must begin by April 1 of the later of (a) the year after the year the employee reaches age 73, or (b) the year in which the employee retires. For a more than 5% owner, RMDs must begin by April 1 of the year he or she reaches age 73.

[2] A "qualified" distribution is one made after a five-year waiting period and because the owner either (1) reaches age 59½; (2) dies; (3) becomes disabled, or(4) uses the funds for first -time homebuyer expenses.

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