



RETIREMENT PLANNING

SIMPLE IRA

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PLEASE NOTE

The Consolidated Appropriations Act, 2021 continues many temporary CARES Act provisions through 2021 to ease access to retirement funds, including:

- ◆ The exception to the 10% early withdrawal penalty for distributions prior to age 59½
- ◆ The elimination of the mandatory 20% withholding requirement on distributions
- ◆ The option to take out up to \$100,000 in a loan or withdrawal (if otherwise allowed under plan provisions)



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SUMMARY

WHAT ARE SIMPLE IRAS?

SIMPLE IRAs—an acronym for Savings Incentive Match Plan for Employees—generally can be established by employers with 100 or fewer eligible employees and with no other qualified retirement arrangement in place.

Eligible employees are those who were paid at least \$5,000 by the employer during any two preceding years and are expected to earn at least that much during the current year. The employer can exclude employees if they are nonresident aliens or covered under a collective bargaining agreement. These are the minimum standards—an employer may adopt less restrictive rules.

WHERE DOES THE FUNDING COME FROM?

Allowable contributions include the employee's elective salary deferrals and the employer's matching contributions. Or, the employer can choose "nonelective" contributions, which are employer contributions unrelated to amounts contributed by employees. Employee salary deferrals and employer contributions are excludable from participants' gross income and deductible to the employer in the year made.

ARE THERE CONTRIBUTION LIMITS?

Employees may defer up to 100% of compensation up to the annual deferral limit. The limits depend, among other things, on the employee's age. In 2021, employees under age 50 can defer up to \$13,500, while the limit for employees age 50 and over is \$16,500.

A SIMPLE IRA isn't required to allow additional "catch-up" contributions by participants age 50 and over, although such contributions are permitted if specified in the plan terms.



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Employers must match employee contributions up to a maximum of 3% of employee compensation for the year. The match can be as low as 1% in no more than two out of the five years ending with the year of the contribution. An alternative is for the employer to make a “nonelective” contribution of 2% of each eligible employee’s annual compensation—up to the maximum includible compensation of \$2905,000 in 2021—even if the employee doesn’t contribute. All SIMPLE IRA contributions—both the employer’s and the employee’s—are fully vested in the employee at all times.

WHAT ABOUT DISTRIBUTIONS?

Distributions from SIMPLE IRAs are generally taxed as ordinary income to the recipient. A 10% penalty tax applies to withdrawals before age 59½ unless certain exceptions apply. If the withdrawal occurs within the first two years of the employee’s participation in the plan, the penalty tax is 25% for a participant under age 59½ unless certain exceptions apply. Distributions must begin by age 72. After this time, a 50% penalty tax applies to any amount that should have been distributed but was not.

A SIMPLE IRA clearly offers many advantages to employers not wanting to take on the complexities, reporting requirements and costs inherent in other qualified retirement plans.



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