

SIMPLE IRA

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RETIREMENT PLANNING

SIMPLE IRA

The Concept

- A SIMPLE IRA (Savings Incentive Match Plan for Employees) is an employee retirement arrangement featuring a special account or annuity for each participant.
- A SIMPLE IRA is easier to set up and administer than a qualified retirement plan such as a 401(k).
- A SIMPLE IRA isn't subject to the general nondiscrimination rules for other qualified plans or the rules for top-heavy plans.
- Employee elective salary deferrals and employer required contributions are excludable from the employee's gross income.
- Employees are fully vested in all employee and employer contributions.

The Process

- A SIMPLE IRA may be established by any business with no other qualified retirement plans in place and with 100 or fewer employees who earned at least \$5,000 in the previous year.
- To participate, an employee must have earned \$5,000 or more in any two previous years and must expect to earn at least that much in the current year—although employers may provide less restrictive eligibility requirements.
- Employees can generally make elective salary deferrals (up to \$17,000 in 2026, indexed annually for inflation). In 2026, if the plan allows, employees age 50 and older can make additional salary deferrals up to \$4,000 (for a total of \$21,000) or \$5,250 for those ages 60–63 (for a total of \$22,250).
- Small and qualifying medium-sized businesses have their own salary deferral limits. In 2026, the limit on elective deferrals is \$18,100. If the plan allows, employees age 50 and older can make additional salary deferrals up to \$3,850 (for a total of \$21,950) or \$5,250 for those ages 60–63 (for a total of \$23,350).
- Distributions before age 59½ are subject to a 25% penalty tax during the first two years of participation and 10% thereafter, unless specific exceptions apply.
- Required minimum distributions (RMDs) must generally begin by April 1 of the year following the year the employee reaches age 73, regardless of whether the employee is still employed.
- Participants who fail to comply with the distribution rules face a 25% penalty tax (or 10% if corrected quickly) on the amount that should have been withdrawn but was not.
- Initially, a SIMPLE IRA plan only offers a traditional IRA option (no Roth IRAs), but the employee can convert to a Roth IRA after a required two-year holding period.

Employer Contributions

- If the employer elects to make matching contributions, the company must match each employee's salary reduction on a dollar-for-dollar basis up to 3% of the employee's total compensation. The employer may choose a matching contribution as low as 1% in no more than two years out of any five-year period.

- If the employer chooses to make nonelective contributions, the company must contribute 2% of compensation (maximum \$360,000 for 2026) for each employee with at least \$5,000 of compensation for the year.
- An employer may substitute the 2% nonelective contribution for the matching contribution if the employees are notified on a timely basis.

The Bottom Line

The acronym—SIMPLE—clearly spells out its appeal to employers not wanting to take on the complexities, reporting requirements and costs inherent in other qualified retirement arrangements.

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 2026, employees under age 50 can defer up to \$17,000, while the limit for employees age 50 and older is \$21,000, and the limit for those ages 60–63 is \$22,250.

Small and qualifying medium-sized businesses have unique SIMPLE deferral and 50+ catch-up limits. In 2026, the contribution limit is \$18,100, while employees age 50 and older can defer up to \$21,950 and those ages 60–63 can defer up to \$23,350.

A SIMPLE IRA isn't required to allow additional "catch-up" contributions by participants age 50 and older.

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 \$360,000 in 2026—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 73. After this time, a 25% penalty tax applies to any amount that should have been distributed but was not (10% if the distribution error is corrected within two years).

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.

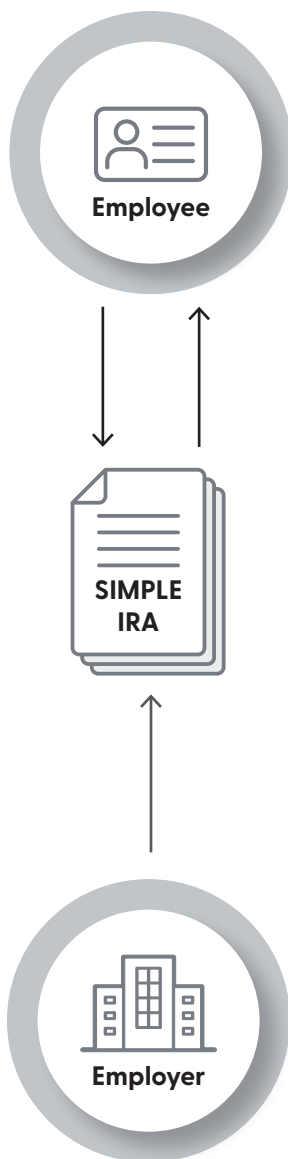
SIMPLE IRA

1

An employee elects to defer a portion of salary into a SIMPLE IRA subject to annual contribution limits (which increase at age 50, and increase further for those ages 60–63). **Deferrals within these limits are not taxed.**

2

The employer makes either matching or discretionary contributions to the plan. **These contributions are deductible to the employer (subject to general limits) and tax deferred to the employee.**



3

Earnings inside the plan grow tax deferred, allowing for greater accumulation.

4

The employee may begin taking distributions from the plan at age 59½. Distributions made prior to age 59½ face an IRS penalty of 25% if taken in the first two years of plan participation (10% after two years), unless a specific exemption applies. **Employees must begin taking distributions by age 73 regardless of employment status.** A 25% penalty applies to any amount that should have been taken but was not (10% if the distribution error is corrected within two years). Distributions are taxed as ordinary income.



This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

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