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Greetings!

Our newsletter this moth is titled "The SIMPLE Plan: A Retirement Plan That Lives Up to Its Name."

Thank you for your thoughts and feedback on our newsletters. If you know someone who may benefit from this information, please pass it on. If you have any questions or comments, please contact us.

Regards,

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The SIMPLE Plan: A Retirement Plan That Lives Up to Its Name

In recent years, government officials and financial experts alike have expressed concern that many Americans--especially those who work for smaller companies--may find themselves at retirement age without the necessary savings.

To help address this problem, Congress created the Savings Incentive Match Plan for Employees, or SIMPLE retirement plan. Aptly named, the SIMPLE plan was designed to offer small businesses the opportunity to provide employees with a robust retirement plan benefit that includes flexible matching and no-fuss reporting and administrative features.

Is a SIMPLE Plan Right for Your Business?

A SIMPLE plan may be appropriate for businesses that:

- Have 100 or fewer employees earning at least $5,000 in the preceding calendar year.
- Are funded by employee and employer contributions.
- Want minimal administration and flexible contributions.
- Do not have another retirement plan.

These plans can be set up either as an individual retirement account (IRA) for each employee or as part of a 401(k) plan.

Contributions

To fund a SIMPLE plan, the company must either match the contribution the employee has chosen to make dollar for dollar up to 3% of compensation, or make a 2%-of-compensation nonelective contribution for each eligible employee up to the annual limit of $265,000 for 2015 and 2016, subject to cost-of-living adjustments in later years. If you choose to make nonelective contributions, you must make them for all eligible employees whether or not they make their own contributions. (There is some flexibility here, as an employer can match contributions of as little as 1% of compensation in two out of five years.)

Employee contributions are expressed as a percentage of the individual's compensation and cannot exceed $12,500 in 2015 (and 2016). Additional catch-up contributions may be made by employees aged 50 or older, but employers are not required to match them. The catch-up contribution limit for 2015 (and 2016) is $3,000.

Employees can decide to participate or to change the amount they contribute within 60 days of the start of a new year or 60 days before they are eligible to participate. Employees must also be allowed the flexibility to terminate their participation at any time during the year.

Tax Implications

Employers may deduct all contributions made to employees' SIMPLE IRAs on their business tax returns. However, employee contributions to a SIMPLE IRA are not deductible by participants as they are not reported as income on their Forms 1040 and are not considered taxable until they are withdrawn.

Distributions

SIMPLE IRA distributions can be rolled over into another IRA or SIMPLE plan, and to another employer's qualified plan, after 2 years of beginning participation in the original plan. If employees make withdrawals before age 59½, those withdrawals are subject to a 10% additional federal tax. To further encourage employees to keep the funds in their SIMPLE accounts until they retire, the law calls for a higher 25% early withdrawal tax should the employee withdraw any contributions that were made during the two-year period beginning on the date the employee first participated. RMDs (required minimum distributions) are required to be distributed by April 1 of the year following the year the participant reaches age 70½.

SIMPLE 401(k)

To set up a SIMPLE 401(k) plan, the employer must meet all the same eligibility requirements and follow the same funding rules as with a SIMPLE IRA. Some of the key features associated with a SIMPLE 401(k) include the following:

- Plan is not subject to the non-discrimination rules that apply to everyday 401 (k) plans.
- Employees may take loans from their SIMPLE 401(k) plans.
- Both the company and the plan fiduciary have somewhat reduced fiduciary liability for losses resulting from either the employee or the beneficiary exercising control over the assets in the account, with respect to the choice of investment the employee or beneficiary makes or a rollover to another SIMPLE account or IRA.
- Companies that establish SIMPLE 401(k) plans do not have the flexibility to reduce their matching contributions to 1% of compensation in two out of five years, as do companies that establish their plans as SIMPLE IRAs.

Getting Started

To learn more about SIMPLE IRAs or SIMPLE 401(k)s, visit the following pages on the IRS website:

Choosing a Retirement Plan: SIMPLE 401(k) Plan

SIMPLE IRA Plan

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