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, either a "traditional" (pre-tax contributions) or Roth (after-tax contributions) 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 2025, elective contributions cannot exceed the lesser of $16,500 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 (RMDs) must begin by a specified date, the required beginning date (RBD).[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 current law, the RBD increases: (1) to age 73 for those born from 1951 to 1958 and (2) to age 75 for those born after 1958. For non-owner employees, RMDs must begin by April 1 of the year after the *later* of (a) the year they reach the RBD; or (b) the year the employee retires. For more-than 5% owners, RMDs *must begin* by April 1 of the year after the year they reach the RBD. Previously, age 72 was the mandated age to begin RMDs.

[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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Presented by Chris Swenson