

SIMPLE IRA vs. 401(k): What Are The Differences?

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	SIMPLE IRA	401(k)
Maximum Employee Deferral	\$13,000 (for 2019)	\$19,000 (Aggregate of pre-tax and/or Roth) (for 2019)
Roth Option	No	Yes
Catch-Up Contributions (Participants Age 50 or Older)	\$3,000 (for 2019)	\$6,000 (for 2019)
Employer Contributions	Mandatory: 100% up to 3% or 2% Non-elective Contribution	Optional: Up to 25% of W-2 Payroll, maximum of \$56,000 (for 2019) Maximum includible Compensation: \$280,000 (for 2019)
Vesting Schedule	Immediate 100% Vesting	Options Available (May be less restrictive) 3 Year Cliff or 2-6 Year Graded
Loan Feature Available	No	Yes
Actual Deferral Percentage (ADP) / Actual Contribution Percentage (ACP) Testing	No	Yes
Top Heavy Testing	No	Yes
Profit Sharing Available	No	Yes
Eligible Employer	Employers who on any day during the preceding year have 100 or fewer employees earning \$5,000 or more in compensation	Any Employer
Establishment Deadline	October 1st of the current year. May be later if business is established after October 1st	Last day of employer's taxable year
Eligibility	Employees who receive \$5,000 in compensation in any two preceding years are expected to earn \$5,000 in the current year. (May be less restrictive)	21 Years Old, Completion of One Year of Service & At Least One Year of Service (May be less restrictive)
Benefits	Ease of use, very little administration, no annual Form 5500 filing, no annual discrimination testing, tax deferred savings	Higher contribution levels & catch-ups, flexibility in plan design for business owners, loan availability, Roth & After-tax contributions available, large universe of investment availability
Considerations	SIMPLE IRAs are great retirement plans for small businesses. They require little administration and no annual testing. There are however some set-backs that must be considered when speaking with clients. SIMPLE IRAs require immediate 100% vesting. If business owners expect to use a vesting schedule to persuade employees to stay, the SIMPLE may not be an option. SIMPLE also requires mandatory employer contributions. If an employer is concerned about cashflow and making contributions on an ongoing basis, this may be a concern.	A 401(k) plan is a great option for businesses of all sizes. They offer high contribution limits for employers and employees. 401(k) plans also give businesses a great deal of flexibility in design which may allow for greater contributions to higher income earners and owners. 401(k) plans generally offer more investment options too. 401(k) plans however do require annual Form 5500 filing, may require annual testing, & administration is more complex than that of SIMPLE IRA.

Source: IRS.gov, as of 2/28/2019



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