

SIMPLEs

SIMPLE-IRA

*Savings Incentive Match
Plans for Employees of
Small Employers & for
Self-Employed Individuals*

Sample

Questions & Answers

What is a SIMPLE-IRA plan?

A SIMPLE-IRA plan is a type of employer-sponsored retirement plan. A SIMPLE has its own special features which will make it attractive to some employers and unattractive to others. The purpose of this brochure is to explain the basic features of a SIMPLE-IRA plan. If you are an employee and not an employer, you will still benefit from understanding how a SIMPLE plan works. An employee may enjoy substantial tax benefits by participating in a SIMPLE-IRA plan. You may wish to inform your employer that it should consider establishing such a plan.

Why have a SIMPLE-IRA plan?

The main reason is — you are allowed to save for retirement and you receive substantial tax benefits as an incentive to do so.

What businesses or employers may establish a SIMPLE?

To be eligible to have a SIMPLE, an employer must meet two requirements. First, an employer will be eligible if it employed 100 or fewer employees on any day during the year who earned \$5,000 or more in compensation from the employer during the year. Second, the employer (or any predecessor employer) cannot currently maintain, during any part of the calendar year, a other Qualified Plan. For these purposes, a Qualified Plan includes a qualified retirement plan, a qualified annuity plan, a governmental plan, a tax-sheltered annuity, and a SEP-IRA which contributions were made or benefits were accrued, for service in the calendar year.

May a sole proprietor establish a SIMPLE?

Yes. A sole proprietor may establish a SIMPLE as long as the rules discussed above are satisfied. When a self-employed individual sponsors a SIMPLE, he or she is considered to be both the employer and an employee.

If you are self-employed, you are allowed to make an elective deferral up to the maximum permitted without regard to any “percentage of compensation” as is common with profit sharing and SEP-IRA plans. You are, however, not allowed to defer more than the lesser of: your net earnings or the applicable annual limit.