

How a SIMPLE IRA Works



Employer

- SIMPLE plans are only available to firms with 100 or fewer employees and which do not maintain another qualified retirement plan.
- Employer generally must match employee contributions dollar for dollar up to 3%.²
- Mandatory contributions are tax deductible to the business.



Employee

- Employee may elect to defer a percentage of salary.
- Contributions are pre-tax, thus lowering total taxable income.
- For 2011, elective contributions cannot exceed \$11,500 or 100% of compensation.¹

SIMPLE IRA

- A separate IRA exists for each participant.
- Employer contributions are not currently taxable to employee and earnings accumulate tax deferred.
- Most plans are self-directed (employee controls investments).
- Investment risk remains on employee.

Early Withdrawal

- A 25% penalty tax generally applies if withdrawals are made within two years and before age 59½.³
- Some exceptions to penalty tax are available.
- Earnings + deductible contributions are taxed as ordinary income in year received.

Retirement

- Distributions must begin by April 1 of year following year owner reaches age 70½.
- Required minimum distribution rules apply.
- Earnings + deductible contributions are taxed as ordinary income when received.

Death

- Value of IRA is included in owner's gross estate.
- Proceeds can pass to surviving spouse with payments over survivor's lifetime.
- Income and estate taxes can severely reduce IRA funds left to nonspousal beneficiaries.

¹ For those age 50 and older, additional "catch-up" contributions of \$2,500 may be made.

² Alternately, employer may choose to contribute 2% of compensation to all eligible employees, whether they defer or not.

³ Premature distributions (before age 59½) made after the first two years of participation are generally subject to a 10% penalty tax, unless an exception applies.