

SIMPLE IRA vs. Safe Harbor 401(k) Plans

Use this guide to learn more about the features of SIMPLE IRA and Safe Harbor 401(k) plans.

Feature	SIMPLE IRA	Safe Harbor 401(k)
Age & Service Requirements	No excludable age limit. Employers may exclude employees who earned less than \$5,000 during any two preceding years and are expected to earn less than \$5,000 during the current year.	May exclude employees under age 21 and require up to one (1) year of service. (A year of service = a maximum of 1,000 hours worked within a 12 month period).
Employee Deferral	100% of income up to \$13,000 . Participants who are age 50 and older are allowed an additional \$3,000 catch-up contribution.	100% of income up to \$19,000 ; may be further limited by plan document. Participants who are age 50 and older are allowed an additional \$6,000 catch-up contribution.
Employer Contributions	Must choose one of the following: A 2% contribution to all eligible employees or, A \$1 for \$1 match on the first 3% of compensation (may be reduced to 1% every two (2) out of five (5) years) to all participating employees. A SIMPLE IRA Plan is designed for companies with less than 100 employees and can be the only retirement plan the employer can offer in any one calendar year.	Must choose one of the following: <ul style="list-style-type: none"> A 3% contribution to all eligible employees or, A 4% match structured at least as favorable as follows: \$1 for \$1 match on the first 3% of compensation and a \$0.50 match on the next 2% of compensation. An additional discretionary Profit Sharing contribution ² is allowed, not to exceed \$56,000 ¹ .
Vesting	100% immediate vesting on all contributions is required.	100% immediate vesting required on all Salary Deferrals and Safe Harbor contributions. Non-Safe Harbor contributions may have a vesting schedule.
Distributions	Distributions are subject to IRA rules and do not require a distributable event . 10% IRS penalty for premature distributions prior to age 59 ½. Some exceptions may apply. For distributions within the first two (2) years of plan participation, a 25% penalty will apply if you are under age 59 ½. Mandatory distributions at age 70 ½.	Withdrawals permitted after a distributable event such as retirement, disability, separation from service, etc. Loans available if employer allows. 10% IRS penalty for premature distributions prior to age 59 ½. Some exceptions may apply. No mandatory distributions at age 70 ½ if employed with company. ³
IRS Reporting and Testing	No IRS Form 5500 reporting, Deferral/Contribution Percentage, or Top-Heavy testing required.	Annual IRS Form 5500 reporting required. Generally, Safe Harbor contributions satisfy Deferral/Contribution Percentage testing and Top Heavy testing requirements.
Plan Document	IRS Form 5304-SIMPLE or prototype document.	Prototype document.
Establishment Date	Always a calendar year plan. Plan may be established on any date between 01/01 and 10/01 for current year deduction. Employers must allow for a 60-day enrollment.	Plan may be established by 10/01 for current year plan; existing 401(k) plans must wait until 01/01 of the next plan year to become Safe Harbor (assumes calendar year plan). Employers must provide Safe Harbor notice to employees 30-90 days in advance.
Advantages	Low cost Easy to establish/discontinue No plan testing or IRS Form 5500 reporting Reduced fiduciary liability	<ul style="list-style-type: none"> Higher deferral, match and catch-up limits Loans from plan available Automatically passes most plan testing Can have more than 100 employees

¹ Overall limit combining salary deferrals and employer contribution is 100% of compensation up to \$56,000 (\$62,000 for individuals qualifying for catch-up contributions).

² Maximum compensation for Profit Sharing calculation is \$280,000.

³ If ownership is 5% or greater, must take RMD.

* Please verify with plan document.