

THE BASICS

SIMPLE (Savings Incentive Match Plan for Employees) IRA plans are aptly named, as these plans are known for the ease in which they are established and maintained. Each employee will have their own SIMPLE IRA account. While they are relatively inexpensive to set up, they also require mandatory contributions to employee accounts. Simplified Employee Pension (SEP) plans are also inexpensive and easy to maintain, but provide little flexibility. Each employee will have their own Traditional IRA to receive SEP contributions.

Alternatively, 401(k) plans can be more complex to establish and maintain; however, they offer more flexibility in plan design. Employers can decide if they will contribute, and how much they will contribute to employee accounts with this type of plan. This option also allows for higher contributions for employees.



	SEP IRA	SIMPLE IRA	401(k) PLAN
Company Size Requirements	No restriction	100 or fewer employees	No restriction
Employee Eligibility	Employees can be required to work for up to 3 years before entering the plan	Employees can be required to work for up to 2 years before entering the plan	Employees can be required to work 1,000 hours in 1 year before entering the plan; new long-term part-time rules will permit part-time employees to defer; can exclude classes of employees
Employer Contributions	Discretionary with pro rata allocation	Required match or nonelective contribution with immediate vesting; no testing	- Optional employee contributions - Employer determines vesting schedule - Must pass nondiscrimination testing
Contribution Limits	- Employee deferrals are not permitted - Employer: \$72,000	- Employees: \$17,000 (\$21,000 for those 50 or older, \$22,250 for those ages 60-63) - Employer: Match is 100% of deferrals up to 3% of pay. 2% is based on pay only up to \$360,000	- Employees: \$24,500 (\$32,500 for those 50 or older), \$35,750 for those aged 60-63, subject to testing unless safe harbor - Employer: Combined with employee contributions, must be less than \$72,000 (\$80,000 if 50 or older, \$83,250 if aged 60-63)
Administrative Requirements	None	Annual plan details must be sent to employees	- Annual coverage and nondiscrimination testing - Annual Form 5500 filing
Main Pros	- Little administration - Little to no setup and maintenance costs - Exempt from top-heavy rules - Best for very small businesses	- Less administration - Lower setup and maintenance costs - Exempt from top-heavy rules	- Higher contribution limits - Contribution flexibility - Vesting schedule set by employer - May permit loans
Main Cons	- Allocation options are limited - No deferrals permitted - Little ability to exclude employees - Must cover all employers of the controlled group/affiliated service group	- Mandatory employer contribution - Immediate vesting - Lower contribution amounts - No loans allowed - No other plan types allowed - Must cover all employers of the controlled group/affiliated service group	- Higher setup and maintenance costs - More complex administrative requirements - May be subject to top-heavy minimums