SIMPLE IRA vs. 401(k)

The pros and cons of these retirement plan options

THE BASICS

SIMPLE (Savings Incentive Match Plan for Employees) IRAs are aptly named, as these plans are known for the ease in which they are established and maintained. While they are relatively inexpensive to set up, they also require mandatory contributions to employee accounts.

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

	SIMPLE IRA	401(k) PLAN
Company Size Requirements	• 100 or fewer employees	• One or more employees
Employer Contributions	• Mandatory employer contribution. Match up to 3% ***OR*** a non-elective contribution of 2% for all eligible employees, regardless of their election to defer into the plan • Immediate vesting • There is no testing requirement	• Optional employer contributions • Employer determines vesting schedule • Must pass nondiscrimination testing
Contribution Limits	• Employees: $15,500 ($19,000 for those 50 or older) • Employer: Match is 100% of deferrals up to 3% of pay. 2% is based on pay only up to $330,000	• Employees: $22,500 ($30,000 for those 50 or older) subject to testing unless safe harbor • Employer: Combined with employee contributions, must be less than $66,000 ($73,500 if 50 or older)
Main Pros	• Less administration • Lower setup and maintenance costs • Exempt from top-heavy rules	• High contribution limits • Roth option available • Contribution flexibility • Vesting schedule set by employer • May permit loans
Main Cons	• Mandatory employer contribution • No Roth option • Lower contribution limits • No loans allowed • No other plan types allowed • Must cover all employers of the controlled group/affiliated service group	• Typically higher setup and maintenance costs • More administrative requirements • May be subject to top-heavy minimum contribution