

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.

	SIMPLE IRA	401(k) PLAN
Company Size Requirements	<ul style="list-style-type: none"> 100 or fewer employees 	<ul style="list-style-type: none"> One or more employees
Employer Contributions	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Optional employer contributions Employer determines vesting schedule Must pass nondiscrimination testing
Contribution Limits	<ul style="list-style-type: none"> Employees: \$16,500 (\$20,000 for those 50 or older, \$21,750 for those ages 60-63) Employer: Match is 100% of deferrals up to 3% of pay. 2% is based on pay only up to \$350,000 	<ul style="list-style-type: none"> Employees: \$23,500 (\$31,000 for those 50 or older), \$34,750 for those aged 60-63, subject to testing unless safe harbor Employer: Combined with employee contributions, must be less than \$70,000 (\$77,500 if 50 or older, \$81,250 if aged 60-63)
Main Pros	<ul style="list-style-type: none"> Less administration Lower setup and maintenance costs Exempt from top-heavy rules 	<ul style="list-style-type: none"> High contribution limits Roth option available Contribution flexibility Vesting schedule set by employer May permit loans
Main Cons	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Typically higher setup and maintenance costs More administrative requirements May be subject to top-heavy minimum contribution