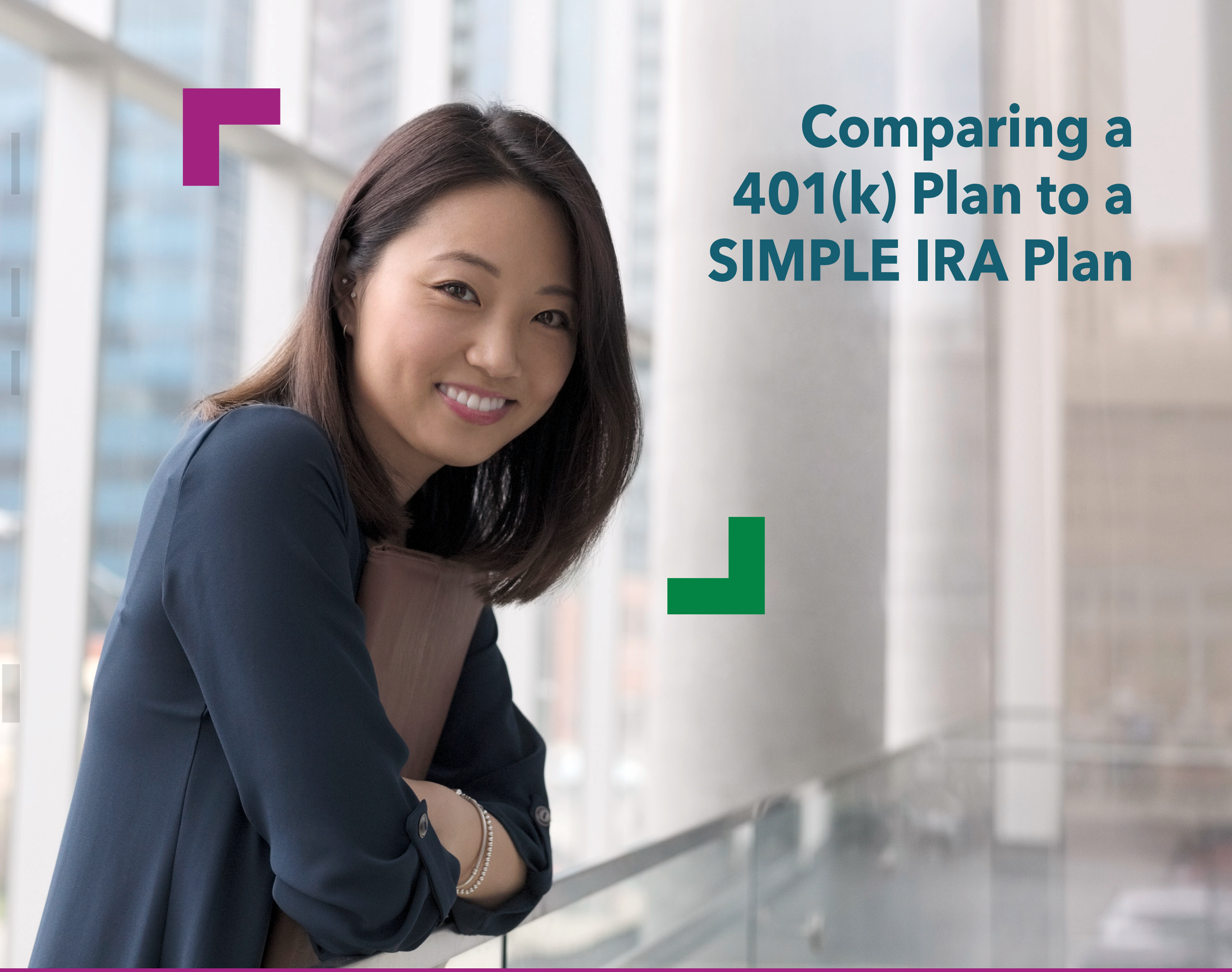

# Comparing a 401(k) Plan to a SIMPLE IRA Plan

Lifetime Benefit Solutions can help your clients understand the advantage of selecting a 401(k) Plan over a SIMPLE IRA Plan, including higher contribution limits and design flexibility. And once your plan is designed, we'll help you navigate the legal and administrative requirements that are part of operating a 401(k) Plan.

The marketplace is filled with retirement plan service providers ranging from small local firms with a staff of one to large national firms with thousands of employees. As a national firm with a local presence, Lifetime Benefit Solutions offers you the best of both worlds: the depth, experience and capability of a large, well supported national firm with the high-quality, personalized attention and affordable services of a local provider.

Lifetime
BENEFIT SOLUTIONS

# Comparing a 401(k) Plan to a SIMPLE IRA Plan

Although employer groups with 100 or fewer employees are eligible to sponsor SIMPLE IRA Plans, it may be worth the time and consideration evaluating the advantages that a 401(k) Plan can offer.

A 401(k) Plan may cost more, but a properly designed plan can provide employers with added flexibility, higher contribution limits and more features than a SIMPLE IRA Plan. Take a look at the comparison below to help determine if the cost is worth it, especially since the IRS offers a tax credit equal to 50% of the administrative costs (maximum credit is $500) for the first three years.

| Plan Feature | 401(k) Plan | SIMPLE IRA Plan |
|---|---|---|
| **Maximum Employee Deferral (2020 limit. Subject to IRS COLA)** | $19,500 | $13,500 |
| **Catch-Up Contribution for Individuals 50 or Older by year-end (2020 limit. Subject to IRS COLA)** | $6,500 | $3,000 |
| **Roth Contributions** | Allowed | Not Allowed |
| **Eligibility Coverage** | Can be more lenient, but as restrictive as 21 years of age, completion of one year of service and 1,000 hours per year. | Can be more lenient, but MUST cover employees who receive $5,000 in compensation in any two preceding years and are expected to receive $5,000 in compensation in the current year. |
| **Plan Loans** | Allowed | Not Allowed |
| **Employer Contributions** | Optional. Dependent on plan design and objectives of the employer. Cannot exceed 25% of eligible company payroll.<br>Popular designs include:<br>• Safe Harbor – requires a 4% match.<br>• Discretionary Profit Sharing based on pro-rata, integrated or new comparability formula. | Must provide either a match equal to 100% of deferrals up to 3% of compensation OR a 2% profit sharing contribution.<br>No additional employer funding options are available. |
| **Maximum Plan Contributions (2020 limit. Subject to IRS COLA)** | Employee and employer contributions cannot exceed $57,000 or $63,500 if age 50 or older by year-end.<br>May be subject to plan testing dependent on design. | Employee contribution ($13,500 for 2020) plus 3% match of compensation. |
| **Vesting Schedule** | Available on employer contributions not considered Safe Harbor. | Not available. Employer contributions are immediately vested. |
| **Early Distribution Penalty** | 10% premature penalty may apply. | 25% premature penalty applies for first two years, then 10% penalty thereafter. |
| **Investment Providers** | Many 401(k) platforms to choose from.<br>401(k) platforms allow employees to make changes and conduct research themselves online.<br>Investment adviser works in conjunction with platform on participant education and ongoing support. | Single Option.<br>Each participant has their own IRA account. Investment adviser is solely responsible for participant education and plan trading. |

# Why Choose a 401(k) Plan Over a SIMPLE IRA Plan?

401(k) Plans and SIMPLE IRA Plans both have advantages and it can be confusing determining which retirement plan is best for a business. 401(k) Plans, though, offer advantages that may make the decision an easier one.

- Higher contribution limits
- Roth contribution option available
- Ability to take out loans
- Ability to save more money
- More flexibility in design
- Wide range of investment choices
- Profit sharing availability
- Vesting schedule availability

**Safe Harbor 401(k) Plan vs. SIMPLE IRA Plan**
**2020 Plan Contribution Illustration**

| | | SIMPLE IRA Plan | | | Safe Harbor 401(k) Plan | | |
|---|---|---|---|---|---|---|---|
| | Employee Compensation | Maximum Employee Contribution | Maximum Employer Contribution | Total SIMPLE Contribution | Maximum Employee Contribution | Maximum Employer Contribution | Total 401(k) Contribution |
| **Owner (assuming age 50+)** | **$80,000** | **$16,500** | **$2,400** | **$18,900** | **$26,000** | **$3,200** | **$29,200** |
| Employee 1 | $70,000 | Not applicable. Assuming each employee contributes the maximum % required to maximize their match, 3%. Should any employee not contribute or contribute a lesser percentage, the match would decrease. | $2,100 | | Not applicable. Assuming each employee contributes the maximum % required to maximize their match to 4%. Should any employee not contribute or contribute a lesser percentage, the match would decrease. | $2,800 | |
| Employee 2 | $60,000 | | $1,800 | | | $2,400 | |
| Employee 3 | $50,000 | | $1,500 | | | $2,000 | |
| Employee 4 | $50,000 | | $1,500 | | | $2,000 | |
| Employee 5 | $50,000 | | $1,500 | | | $2,000 | |
| Employee 6 | $50,000 | | $1,500 | | | $2,000 | |
| Employee 7 | $50,000 | | $1,500 | | | $2,000 | |
| Employee 8 | $50,000 | | $1,500 | | | $2,000 | |
| Employee 9 | $40,000 | | $1,200 | | | $1,600 | |
| Employee 10 | $30,000 | | $900 | | | $1,200 | |
| | | **Maximum Match Required** | **$17,400** | | **Maximum Match Required** | **$23,200** | |

| | SIMPLE IRA | Safe Harbor 401(k) | Difference |
|---|---|---|---|
| Maximum Owner Contribution | $18,900 | $29,200 | $10,300 |
| Maximum Required Contribution | $17,400 | $23,200 | $5,800 |

Notes:

1. Maximum employee contribution for a 401(k) is $19,500 plus $6,500 catch-up for any individual that attains age 50. Contribution limits are subject to annual IRS COLA adjustment.
2. Maximum employee contribution for a SIMPLE is $13,500 plus $3,000 catch-up for any individual that attains age 50. Contribution limits are subject to annual IRS COLA adjustment.
3. The above illustration shows the maximum required employer contribution under both plans. The required employer match under the 401(k) plan would equal 4% of compensation and 3% of compensation for a SIMPLE. Employees that choose not to contribute or contribute a lesser amount, would have their matching contribution decrease under either plan.

Lifetime
BENEFIT SOLUTIONS

**To learn more contact Lifetime Benefit Solutions**

333 Butternut Drive
Syracuse, NY 13214
1-800-356-1029

LifetimeBenefitSolutions.com
LBS.Sales.Support@LifetimeBenefitSolutions.com

B-5610/13904-20LBS