SIMPLE IRA PLAN FAQs

1. **What is a SIMPLE IRA?**

   A SIMPLE IRA plan provides small employers with an easy and cost-effective way to establish a retirement plan for employees. Contributions are made to an Individual Retirement Account set up for each employee. SIMPLE stands for Savings Match Plan for Employees.

2. **Who can establish a SIMPLE IRA?**

   Generally, SIMPLE IRA Plans are available to businesses with less than 100 employees.

3. **How do I establish a SIMPLE IRA Plan with PCS|Aspire?**

   SIMPLE IRA Plans may be established through Aspire. Complete the Plan Sponsor Profile, the IRS Form 5305-SIMPLE and the Aspire SIMPLE IRA Employer Agreement and return to Aspire. Once signed, the 5305-SIMPLE becomes the plan's basic legal document, describing employees' rights and benefits. Employers keep the original documents for their records.

4. **What is the deadline to establish a SIMPLE IRA?**

   Typically, SIMPLE IRA plans must be established between January 1st and October 1st. SIMPLE IRA plans are maintained on a calendar year basis.

5. **If I have a SIMPLE IRA can I also have other retirement plans?**

   Generally, an employer with a SIMPLE IRA plan can't sponsor any other retirement plan, such as a 401(k) plan.

6. **Which employees are eligible to participate in an employer's SIMPLE IRA plan?**

   All employees who received at least $5,000 in compensation from you during any 2 preceding calendar years (whether or not consecutive) and who are reasonably expected to receive at least $5,000 in compensation during the calendar year, are eligible to participate in the SIMPLE IRA plan for the calendar year.

   An employer may choose to impose less restrictive eligibility requirements. You may eliminate or reduce the prior year compensation requirement, the current year compensation requirement, or both. For example, you could allow participation for employees who received $3,000 in compensation during any preceding calendar year. However, you cannot impose any other conditions on Participation.

7. **Are there employees who may be excluded from a SIMPLE IRA plan?**

   Employers may choose to exclude employees who are:

1. covered by a collective bargaining agreement, if retirement benefits were the subject of good faith bargaining between you and the employee representatives;

2. covered by a collective bargaining agreement between you and air pilots represented in accordance with Title II of the Railway Labor Act; and

3. nonresident aliens and who received no U.S. source earned income.

8. What are the contribution rules?

SIMPLE IRAs hold the contributions made for each eligible employee. A SIMPLE IRA is funded by:

- **Salary reductions**. For 2019, annual employee salary reduction contributions (elective deferrals)
  - Limited to $13,000
  - For employees age 50 or over, a $3,000 "catch-up" contribution is also allowed

  Each employee's total contributions are limited and subject to annual cost-of-living-adjustments.

- **Employer contributions.** The employer must annually choose one of the contribution methods below. The employer must tell employees before the beginning of the election period which method will be used for the following year:
  - 2% nonelective contribution—2% of each eligible employee's compensation regardless of whether or how much the employee deferred, or
  - 3% matching contribution—match of employee's elective deferrals on a dollar-for-dollar basis up to 3% of the employee's compensation.
    - May reduce the 3% limit to a lower percentage, but in any event, not lower than 1%. May not lower the 3% limit for more than 2 calendar years out of the 5-year period ending with the calendar year the reduction is effective.
  - The employer cannot make any other contributions to a SIMPLE IRA plan.

9. When is the election period?

The election period is generally the 60-day period immediately preceding January 1 of a calendar year (November to December). However, the dates of this period are modified if you set up a SIMPLE IRA plan in mid-year or if the 60-day period falls before the first day an employee becomes eligible to participate in the SIMPLE IRA plan.

10. When must contributions be deposited?

- Employee salary reduction contributions must generally be made within 30 days after the end of the month in which the amounts would otherwise have been payable to the employee (including self-employed individuals) in cash.
- However, if the SIMPLE IRA benefits employees other than owner-employees (and spouse) the deposit of employees' contributions are subject to DOL rules that state deposits must be made on the earliest date on which the employer can reasonably segregate the contributions from the employer's general assets. There is a 7-day safe harbor to deposit elective deferrals for plans under 100 participants.

- Employer matching or nonelective contributions must be made by the due date (including extensions) for filing the federal income tax return for the year.

11. Who owns SIMPLE IRA Contributions?

Contributions to SIMPLE IRA accounts are always 100% vested, or owned, by the employee.

12. What information do I need to give my employees?

Before the beginning of each annual election period, employers must notify each employee of:

1. The employee's opportunity to make or change a salary reduction choice under the SIMPLE IRA plan;

2. The employees' ability to select a financial institution that will serve as trustee of the employees' SIMPLE IRA, if applicable;

3. Your decision to make either matching contributions or nonelective contributions;

4. A summary description (the financial institution should provide this information); and

5. Written notice that the employee can transfer his or her balance without cost or penalty if you are using a designated financial institution.

If you set up your SIMPLE IRA plan using Form 5305-SIMPLE, you can give each employee a copy of the signed forms to satisfy the notification requirement.

If the deferral limitations aren't released timely and you normally include the deferral amount for the upcoming year in your notice, you can mention the current limit and advise participants to check the Cost of Living Adjustments (COLA) Increase table for next year's amount found on the IRS website. The notice isn't required to include the salary deferral limitation for the upcoming year.

13. May a participant "opt out" of a SIMPLE IRA plan or stop making contributions?

An employee may not "opt out" of participation. Of course, any eligible employee may choose not to make salary reduction contributions for a year, in which case the employee would accrue no employer matching contributions for the year but would receive an employer nonelective contribution for the year if the plan provides for it.

If a person chooses to stop making contributions, they may not be permitted to resume contributions until the beginning of the next calendar year.

14. May an employee participate in a SIMPLE IRA plan if he or she also participates in a plan of a different employer for the same year?

An employee may participate in a SIMPLE IRA plan even if he or she also participates in a plan that is sponsored by a different employer for the same year. However, the employee's salary reduction contributions are subject to the limitations of section 402(g), which provides an aggregate limit on the amount an individual can exclude from taxable income each year. The 402(g) limit is a combined limit across 401(k), 403(b), SIMPLE IRA, SIMPLE 401(k) and Salary Reduction Simplified Employee Pension Plans (SARSEP). Elective deferrals include both pre-tax salary reduction contributions and designated Roth contributions, which are contributed on an after-tax basis.

The elective deferral amount for 2019 is $19,000. These amounts are subject to annual Cost of Living Adjustments (COLAs).

Similarly, an employee who participates in a SIMPLE IRA plan and an eligible 457(b) deferred compensation plan is subject to the limitations described in section 457(e)(15). Plan sponsors are not responsible for monitoring compliance with either of these limitations.

15. What are the basic withdrawal rules?

SIMPLE IRA contributions and earnings can be withdrawn at any time, subject to the general limitations imposed on traditional IRAs. A withdrawal is taxable in the year received. If a participant makes a withdrawal before he or she attains age 59 ½, generally a 10% additional tax applies. If this withdrawal occurs within the first 2 years of participation, the 10% tax is increased to 25%.

Under certain circumstances, this 10% additional tax does not apply including:

A participant who withdraws funds from a SIMPLE IRA may continue to participate in the employer's SIMPLE IRA plan.

SIMPLE IRA contributions and earnings must eventually be distributed following the IRA required minimum distribution rules.

- **Rollovers**
  - SIMPLE IRA contributions and earnings may be rolled over tax-free from one SIMPLE IRA to another
  - A tax-free rollover may also be made from a SIMPLE IRA to an IRA that is not a SIMPLE IRA, but only after 2 years of participation in the SIMPLE IRA plan
  - A SIMPLE IRA can be rolled over to a 457(b), 403(b) and any qualified plan after 2 years as well (not just an "IRA that is not a SIMPLE IRA")
- **Participant Loans**
  - Loans are not permitted

16. Where can I find additional information online?

The Internal Revenue Service provides detailed information on SIMPLE IRA plans at https://www.irs.gov/retirement-plans/plan-sponsor/simple-ira-plan