

Major differences between SIMPLE IRAs and 401(k) Plans

	SIMPLE IRAs	401(k) Plans
Individual or group pricing	Individual	Group
Who is authorized to withdraw money	Employee	Employer
2021 Contribution limits	\$14,000	\$20,500
2021 Catch-up limits	\$3,000	\$6,500
Roth	No	Yes
Loans available	No	Yes
Automation (remitting contributions)	Rarely	Yes
Exclude employees <1k hours	No	Yes
Profit Sharing	No	Yes
Vesting schedule on Employer contributions	No	Yes
Automatic Enrollment	Yes	Yes
Match - SIMPLE v. 401k Safe Harbor	3%	4%
Nonelective - SIMPLE v. 401k Safe Harbor	2%	3%
Fiduciary liability to the Employer	None	Yes
Testing requirements	No	Yes
Form 5500 filing required	No	Yes
ERISA bond needed	No	Yes
TPA needed (admin cost)	No	Yes

SIMPLE IRA PLANS:

- Employers with fewer than 100 employees earning \$5k last year and reasonably expected to earn more than that this year are allowed to have SIMPLEs.
- Part-timers earning more than \$5,000 per year cannot be excluded.
- Employee may distribute account at any time, subject to income taxes and possible 25% penalty.
- Employer contributions (mandatory, with exceptions): 3% Match or 2% Nonelective
 - 99% of SIMPLE IRA plans are dollar for dollar match on 3% of pay.
- No other employer contributions may be made (ie: Profit Sharing).
- No other plan can occur in a calendar year where a SIMPLE has had any contributions funded for that calendar year.

401(k) PLANS:

- Higher contribution limits
- Ability to make Roth (after-tax) deferrals
- Flexibility in plan design
 - Eligibility/Entry (including ability to exclude classes of employees or those who work less than 1,000 hours in a year).
 - Conditions on Employer contributions (Match, Profit Sharing)
 - Last Day Rule and/or 1,000 hours requirement
 - Ability to make discretionary Profit Sharing contribution, including fancy allocation formulas (eg: New Comparability)
- Safe Harbor plan design options (helps with testing).
 - Eliminates discrimination testing on deferrals
 - Is used to satisfy Top Heavy requirements if a plan is using Profit Sharing
 - Is used in the cross-testing calculations
- Loans can be permitted
- Distribution options may be permitted (ie: Age 59 ½, Hardships)

This is not a legal document. It is intended for informational purposes only.

