

SIMPLE IRA VS. 401(K)

▶ WHAT'S THE DIFFERENCE?

When a small business starts analyzing the various retirement plan options for their company and their employees, most will be drawn to either a SIMPLE IRA or 401(k) Plan.

▶ BUT WHICH IS THE BEST OPTION?

The answer hinges on several factors depending on the priorities and preferences of the business. Some important questions to ask are:

- What is my primary purpose of installing this retirement plan? Is it to benefit the staff, maximize the owners, or a combination of both?
- How flexible do you want the plan to be?
- How do you want to structure your employee benefits?

	SIMPLE IRA	401(K)
Employee Contributions	\$13,500 salary deferrals allowed \$3,000 additional catch-up (Ages 50+) Pre-tax contributions only (No Roth)	\$19,500 salary deferrals allowed \$6,500 additional catch-up (Ages 50+) Pre-tax or Roth contributions allowed
Employer Contributions	Required 3.00% employer match or 2.00% non-elective No additional options	Optional Safe Harbor contributions (Fully vested) Matching Contribution Discretionary Profit Sharing
Maximum Annual Contribution Per Participant	Employee: \$13,500 (plus \$3,000 for ages 50+) Employer: 3.00% employer match or 2.00% non-elective	Contributions up to the lesser of 100% of an employee's compensation or \$58,000 for 2021 (\$64,500 for ages 50+)
Eligibility	Participants must have earned at least \$5,000 in any of the two preceding years AND be reasonably expected to earn \$5,000 this year No age limit	Employers have flexibility. The maximum requirements are: - Completion of one year of service - 12 months with 1,000 hours - Minimum age is 21 years old
Form 5500 Filings	No	Yes