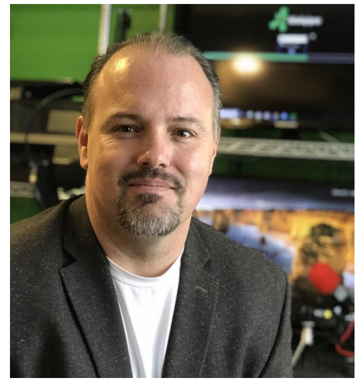
nVest Advisors

nVest Advisors LLC
Jeremy Torgerson, MRFC®
CEO | Managing IAR
PO Box 554
Brighton, CO 80601
Office 888-852-0702 x4
Fax 303-876-7737
jtorgerson@nvestadvisors.com
nvestadvisors.com



SIMPLE IRA Plans

If you are self-employed you can set up a SIMPLE IRA for yourself and make contributions to the plan even if you don't have employees. You're considered to be self-employed if you are in business for yourself or you are a sole proprietor or partner. Self-employment income can include part-time work. If you receive a Form 1099-MISC for work you performed as an independent contractor, you probably have self-employment income.

Looking for a retirement plan for your employees that's easy and inexpensive to administer? Well, there may be a simple answer, the Savings Incentive Match Plan for Employees of Small Employers, better known as the SIMPLE IRA plan.

A SIMPLE IRA plan lets your employees defer up to $13,500 of compensation in 2020 ($16,500 if age 50 or older; up from $13,000 and $16,000, respectively, for 2019). You promise to match employee contributions dollar for dollar up to 3% of pay, or to make a "nonelective" contribution for all eligible employees, whether or not they contribute, equal to 2% of pay.

(The 3% of pay match may be reduced to as little as 1% in any two of five years. And no more than $285,000 of an employee's pay can be taken into account when determining contributions in 2020, up from $280,000 in 2019.)

How do I set up a SIMPLE IRA plan?

You can adopt a SIMPLE IRA plan for 2020 if you had 100 or fewer employees in 2019 (excluding employees who earned less than $5,000) and you don't contribute to any other retirement plan. If your business qualifies, follow these three simple steps to set up your SIMPLE IRA plan (you have until October 1 to set up a new SIMPLE IRA plan for 2020).

Step 1: Adopt a written plan document

You can set up a SIMPLE IRA plan by completing either a pre-approved document provided by a financial institution (for example, a mutual fund company, insurance company, or bank) or an IRS model document (either Form 5305-SIMPLE or Form 5304-SIMPLE).

Form 5305-SIMPLE lets you specify the "designated financial institution" that will both act as your plan's trustee/custodian and initially receive all plan contributions. Form 5304-SIMPLE, on the other hand, lets each eligible employee select the financial institution that will serve as trustee/custodian and receive all plan contributions.

Step 2: Provide information to your employees

You must provide your eligible employees with the following information before the beginning of each election period:

- An explanation of the employees' ability to make or change salary reduction elections
- Whether you'll make matching contributions or nonelective contributions for the coming year
- A summary description of the plan
- If you use a designated financial institution, a notice that employees can transfer their account balances to an IRA provider of their choice without cost or penalty

The election period is generally the 60-day period prior to the start of each calendar year (November 2 to December 31). However, the election period will be different if you set up a SIMPLE plan mid-year, or if an employee first becomes eligible after the 60-day period ends. Forms 5304 and 5305 contain most of the documents you'll need to comply with these notice requirements.

Step 3: Set up employee accounts

A SIMPLE IRA account must be set up by or for each eligible employee, and all contributions to the plan must go into these accounts. In general, you must include all employees who've earned at least $5,000 (from you) during any two preceding years (whether or not consecutive) and who are expected to earn at least $5,000 in the current year.

What are some advantages of a SIMPLE IRA plan?

- SIMPLE IRA plans are not required to follow certain Internal Revenue Code rules that prohibit discrimination in favor of higher-paid workers. Therefore, even if no employees want to contribute, you can establish a plan, contribute on your own behalf, and provide an employer matching contribution.

You can also set up a 401(k) plan as a SIMPLE plan. However, there's little advantage to doing so, since you'll have the same lower contribution limits as a SIMPLE IRA plan, but you'll give up the ease of administration that makes SIMPLE plans attractive in the first place.

- You aren't required to file reports with the government — only the financial institution holding the IRAs is required to file reports.
- Once your employees exercise control over the assets in their accounts, you are relieved of any fiduciary responsibility.
- Employer contributions can be flexible. You can decide each year whether you want to provide a matching contribution or a nonelective contribution.
- The plan requires minimal paperwork.
- Your business can deduct contributions made to a SIMPLE IRA, whether you're making contributions for only yourself, or for yourself and your employees.
- The dollars invested are pre-tax dollars and accrue tax deferred. That means that your employees can exclude the contributions from their gross income.
- Income-tax-free rollovers or direct trustee-to-trustee transfers can be made from one SIMPLE IRA to another SIMPLE IRA at any time. A tax-free rollover from a SIMPLE IRA to a traditional IRA or to another employer plan can be made only after you've participated in the SIMPLE IRA for at least two years. (Caution: You're generally limited to one tax-free, 60-day rollover from one IRA to any other IRA — traditional, Roth, SEP, and SIMPLE — you own in any 12-month period.)

What are some disadvantages?

- You're required to make a contribution every year.
- Your employees are vested immediately. As a result, the SIMPLE IRA might not be a good choice if your goal is to induce employees to remain with your company. Furthermore, immediate vesting can be extremely costly if you have high turnover.
- You're not allowed to maintain any other employer-sponsored retirement plans.
- The annual employee deferral is more than an IRA, but significantly less than a 401(k) plan.
- Withdrawals from a SIMPLE IRA before age 59½ are subject to a 25% early distribution penalty (unless an exception applies) during an employee's first two years of participation, and 10% thereafter, in addition to regular income tax.

What are some key differences between a SIMPLE IRA plan and a 401(k) plan?

	SIMPLE IRA	401(k) Plan
Number of employees	100 or fewer earning at least $5,000	Any number
Employee deferral limits	$13,500, $16,500 if 50 or older	$19,500, $26,000 if 50 or older
Roth contributions?	No	Yes
Complex ERISA/tax compliance?	No	Generally yes
Employer contributions required?	Yes	Generally no
Additional employer contributions allowed?	No	Yes, total contribution (including deferrals) up to $57,000 or more possible
Loans?	No	Yes
Creditor protection?	Yes, in bankruptcy; unclear outside bankruptcy	Generally yes, inside and outside bankruptcy
Withdrawals	Unrestricted	Generally restricted
Early withdrawal penalty	25% during first two years of participation, then 10%	10%
Vesting schedule?	No, all contributions 100% vested	Vesting schedule allowed for employer contributions only

(Dollar limits are for the 2020 plan year.)