

SIMPLE IRA

CAN YOU AFFORD TO RETIRE?

Many Americans have put off saving for retirement. Some consider themselves too young to worry about it. Others believe Social Security will be a primary source to supplement their income during retirement; still others tend to think their employers will take care of it, perhaps by funding a retirement plan.



Due to the large demands on time, capital, and energy, many small business owners have delayed planning for retirement. For some, typical retirement plans have been deemed too costly or too restrictive. Even when established, many plans are required to pass strict anti-discrimination tests.

Designed for employers with 100 or fewer employees, SIMPLE IRAs include employee salary deferrals, as well as employer contributions, without the costly administration expenses associated with most retirement plans. The SIMPLE IRA allows employers to match employee's deferrals or make a non-elective contribution for all eligible employees.

Salary deferrals are calculated on a pre-tax basis; therefore, employees may pay less in taxes. Each contribution is deducted directly from the employee's paycheck which may make saving for retirement much easier.

HIGHLIGHTS OF A SIMPLE IRA

Eligible employers must have 100 or fewer employees and not sponsor any other active qualified plan.

Eligible employers may require employees to have received at least \$5,000 in compensation in any two prior years. Less restrictive options are also allowed. Employers may also exclude union members covered under a collective bargaining agreement.

Contributions: Employees may defer up to \$16,000 in 2024 on a pre-tax basis. In addition, participants age 50 and above can contribute an additional \$3,500.

Employers may choose to fund SIMPLE IRAs using one of the following methods:

- Make a matching contribution equal to each employee's salary reduction, up to a limit of 3% of compensation.
- Make a matching contribution to each employee's salary reduction, in an amount less than 3% but not less than 1% of compensation. This option is available only for two of any five years.
- Make a non-elective contribution to all eligible employees equal to 2% of compensation.

Increased Contributions: SECURE Act 2.0 provided for additional contributions beginning in 2024. Businesses with 25 or fewer employees may automatically apply an increased salary deferral limit and catch up limit, for participants age 50 and over, by an additional 10%.

Eligible employers¹ with businesses of 26 to 100 employees may elect to increase the salary deferral limit and catch up limit, for participants age 50 and over, by the additional 10% for eligible employees *provided* the employer agrees to:

- 1) a 4% (instead of 3%) match or
- 2) a 3% (instead of 2%) non-elective contribution

In addition to the standard employer match or non-elective contribution, employers may now make additional non-elective contributions for the year. These contributions may not exceed 10% of compensation or \$5,000 (whichever is less) per eligible employee. This amount will be indexed annually for inflation.

Notification: Employers are required to provide employees with notification 60 days prior to the effective date of the plan. This notification must include the contribution formula elected by the employer.

Vesting: All contributions are fully and immediately vested to employees.

Early Withdrawal Penalties: Withdrawals prior to age 59½ and within the first two years of the initial contribution are subject to a 25% penalty plus ordinary income tax. After two years, a 10% penalty applies plus ordinary income tax for withdrawals prior to the age 59½.

Self-Direction: All SIMPLE IRAs are self-directed by each employee, thus reducing the fiduciary responsibility of the employer.

Investment Options: Davenport & Company offers many investment alternatives. Since SIMPLE IRAs are self-directed, the employee has a variety of investments from which to choose. These include stocks, bonds, mutual funds, and money market funds. Additionally, we work with many providers, including mutual fund platforms that sponsor SIMPLE IRA turnkey arrangements. A Davenport Financial Advisor is available to help employees make appropriate investment selections.

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¹ Eligible employers are those who did not offer a 401(a), 403(a), or 403(b) plan to the same employees during a three-taxable-year period preceding the year that they established the SIMPLE IRA plan.

The information contained herein has been compiled from a variety of publicly available documents believed to be reliable and is intended to provide information of a general nature. It is not intended to address any particular circumstance. Davenport does not render tax advice or provide any record keeping or reporting for qualified retirement plans. Accordingly, you should consult with your own tax and/or legal professional.

IRAs and other retirement plans may have fees associated with them in addition to costs associated with investing the assets of the IRA or retirement plan. These fees may include, but are not limited to; annual account fees, administrative fees that may include recordkeeping of the plan, legal fees, accounting fees, termination fees, etc. Please consult with your advisor or plan sponsor to learn more about the fees associated with a particular plan.

Updated March 2024