Simple IRA vs. 401(k) vs. Safe Harbor 401(k)

2018 Analysis Detail

Design feature	Simple IRA	401(k)	Safe Harbor 401(k)
Eligibility for plan	Employers with 100 or fewer employees	Any business can establish	Any business can establish
Eligibility for participation	Employees earning over $5,000 or more in two prior years and expected to receive at least $5,000 in compensation during the calendar year.	Age 21 Completion of one year of service 1000 hours service per year	Age 21 Completion of one year of service 1000 hours service per year
IRS Form 5500 required	No	Yes	Yes
Contribution Limits – Employer	Employer must make matching contributions up to 3% of employee compensation or contribute 2% of total eligible compensation	Employer has discretion on what to contribute up to 25% of eligible compensation Employer contributions **not** required	Employer must make dollar-for-dollar matching contributions up to 3% of employee compensation and $.50 on the dollar for the next 2% of employee compensation or contribute 3% of total eligible employee compensation. Additional discretionary profit-sharing contributions are allowed. Employer contributions may not exceed 25% eligible compensation
Required Minimum ER Contribution –			
Matching option	Dollar for dollar match up to 3%	None	4% of employee compensation
or Non-Elective Contribution	2% of employees total eligible compensation[1]	None	3% of employees total eligible compensation
Profit-Sharing available	No	Yes, if plan allows	Yes, if plan allows
Contribution format	Can be made as a matching contribution **or** profit-sharing contribution	Can be made as a matching contribution **and/or** profit-sharing contribution	Can be made as a matching contribution **and/or** profit-sharing contribution
$ Limits – Employee	$12,500 annually for employee if under age 50 $15,500 annually for employee if over age 50	$18,500 annually if under age 50, **subject to testing** $24,500 annually if over age 50, **subject to testing**	$18,500 annually if under age 50 $24,500 annually if over age 50
Deadline for employer contribution	Employer tax filing deadline, plus extensions	Employer tax filing deadline, plus extensions	Employer tax filing deadline, plus extensions
Retirement assets commingled	Not allowed	Plan level decision, but most plans allow for IRA, SIMPLE IRA, 403(b), 457(b) or other 401(k) balances to be commingled	Plan level decision, but most plans allow for IRA, SIMPLE IRA, 403(b), 457(b) or other 401(k) balances to be comingled
Vesting	100% immediate in employer contributions	Plan may offer a vesting schedule with several options being available	100% immediate on Safe Harbor contributions, with vesting schedule available on employer contributions above Safe Harbor
Loans[2]	Not available	Yes, if plan allows for loans	Yes, if plan allows for loans
Pre-tax or Roth (after tax)	Pre-tax only	Pre-tax or Roth if document allows	Pre-tax or Roth if document allows
Distributions[3]	10% premature distribution 10% increased to 25% during first two years In-service distributions allowed Must begin distributions by age 70 ½ Available at any time for any reason	10% premature distribution In-service distributions available if plan allows Must begin distributions by age 70 ½ unless still employed, unless over 5% owner Available for hardships	10% premature distribution In-service distributions available if plan allows Must begin distributions by age 70 ½ unless still employed, unless over 5% owner Available for hardships

[1] Up to the annual limit of $275,000 for 2018, subject to cost-of-living adjustments in later years. If you choose to make non-elective contributions, you must make them for all eligible employees.

[2] Loan Limits: Maximum of 50% of vested balance up to $50,000. Payments must be made at least quarterly with level amortization.

[3] You are able to make contributions after age 70 ½ to a SIMPLE IRA, but you must also take your Required Minimum Distributions.

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Items to Consider

- How important are highest limits for employer and employee contributions?
- How important is having a vesting schedule?
- How important is custom plan design?
- What is likely participation by non-highly paid employees?
- Are loans an important plan feature?
- Are paying some or higher administrative costs a challenge?
- How important is flexibility with respect to match?
- How important is attracting and retaining key employees?
- A SIMPLE IRA and 401(k) cannot exist in the same calendar year
- When moving from a SIMPLE IRA to a 401(k) there are notice requirements

Why SIMPLE IRA?

- Designed for very small companies that want a plan
- If employer against paying for recordkeeping/TPA fees
- Employee only willing to pay some employer contribution
- Slightly lower employer cost than Safe Harbor 401(k) design
- No constraints on taking accumulated funds, subject to tax and penalties

Why not SIMPLE IRA?

- Everyone 100% vested in employer contribution
- No other plans
- Only calendar year design
- Early withdrawals taken prior to age 59 ½ are subject to penalties*
- Roth contributions not available
- Generally one investment family
- Generally retail mutual fund pricing
- Everyone has individual contracts/investments

Why 401(k)?

- Employer contribution not mandatory, flexibility year to year
- Flexibility with custom plan design
- Flexibility with vesting provisions
- Investments looked at as a group for whole plan
- Plans allow for loans and hardships
- Allows for other qualified assets to be merged into plan
- Plan level pricing
- Protection from creditors
- Addition of profit-sharing component available
- Qualifies for tax credit of $500/year for three years under tax law
- Flexibility with eligibility
- Roth after-tax contributions available
- Can maintain other plans

Why Not 401(k)?

- Have to perform ADP/ACP test to determine max employee and employer contributions along with Top Heavy test
- Can be calendar year or fiscal year
- More administrative expense and responsibilities than SIMPLE IRA
- Generally higher administrative expense than Safe Harbor 401(k)
- More administrative responsibilities

Why Safe Harbor 401(k)?

- Maximum contribution for Highly Compensated Employees
- Maximum catch-up provision for participants over age 50
- Allows for eligibility flexibility and with plan design
- Plans allow for loans and hardships
- Allows for other qualified assets to be merged into plan
- Plan-level pricing
- Protection from creditors
- Addition of profit-sharing component available
- Qualifies for tax credit of $500/year for three years under tax law
- No ADP/ACP/Top Heavy test required with Safe Harbor design
- Vesting schedule allowed for profit-sharing component
- Roth after-tax contributions available
- Can maintain other plans
- Generally less administrative expense and responsibility than regular 401(k)

Why not Safe Harbor 401(k)?

- Everyone 100% vested in employer Safe Harbor contribution
- Can be calendar year or fiscal year
- More administrative expense and responsibilities than SIMPLE IRA
- Slightly higher cost if Safe Harbor match or non-matching employer cost selected
- Potentially more expensive than regular 401(k) for employer

*25 percent penalty if taken within the first two years from the contribution and a 10 percent tax penalty if taken after first two years.

Retirement plans are designed to accumulate money on a tax-deferred basis for retirement purposes. Distributions may be subject to ordinary income tax and, if taken prior to age 59 ½, a 10% federal tax penalty may apply. Investing in a group variable annuity involves risk, including possible loss of principal.

Prior to selecting investment options for a plan, plan sponsors should consider the investment objectives, risks, fees and expenses of each option carefully. For this and other important information, plan sponsors should review the fee disclosure document or the plan sponsor website. Read this information carefully.

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