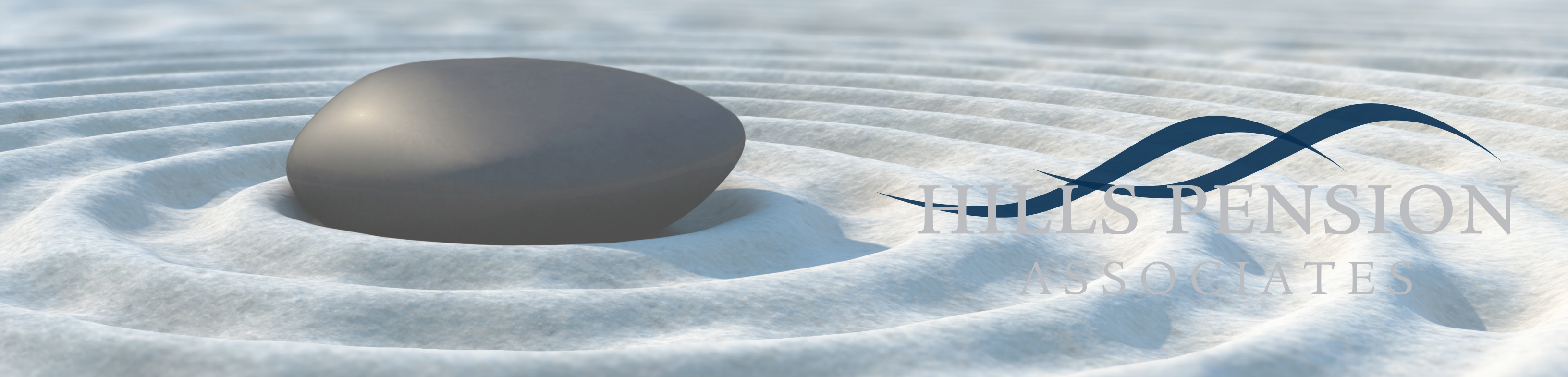

SIMPLE OR TRADITIONAL 401(k) PLAN

Choosing the right retirement plan is one of the most important financial decisions a business owner can make and can be quite challenging. The retirement plan not only allows employers to claim a tax deduction for contributions, but can also attract and retain valuable employees. The challenge then, is deciding which plan will most likely produce the best results for employees and for the business.

ADVANTAGES OF 401(k)

	401(K)	SIMPLE IRA
Who can contribute?	Employee; Employer optional	Employee & Employer
Max employee contribution	$18,500 w/$6,000 catch-up if over 50 years old	$12,500 w/$3,000 catch-up if over 50 years old.
Employer contributions	Optional, up to 25% of W-2 payroll with a $54,000 cap ($60,000 if over 50 years old) plus profit sharing options	Required match of 100% first 3% of participating employee contributions or 2% of all eligible employee salaries
Vesting timing for employer contributions	Multi-year options or immediate	Immediate
Access to funds before age 59½	Penalty-free loans or 10% penalty for early withdrawal	25% penalty for withdrawing within first 2 years of participating: 10% thereafter

Why consider changing from a SIMPLE Plan to a 401(k)? Some key reasons include:

- Higher contribution limits for employee;
- Favoring owners and highly compensated employees through specific plan design;
- Not having 100% immediate vesting of employer contributions; and
- Increased investment selection.

CONVERTING FROM SIMPLE TO 401(k)

An employer cannot maintain a SIMPLE IRA plan and a 401(k) plan in the same calendar year. However, they may choose to maintain a second retirement plan to cover collectively bargained employees if they are excluded from the 401(k) plan. If an employer wants to terminate a SIMPLE IRA plan they may do so prior to the end of the calendar year. However, they must give the employees at least 60 days notice that the SIMPLE IRA plan is being terminated and all contributions promised in the employee notice must be met. Once the plan is terminated a new 401(k) may be established on January 1st. You cannot withdraw or roll over money from a SIMPLE IRA within two years of first funding the account. If you do so, you must pay a 25% tax penalty and accept the distribution as taxable income. The two-year period starts when a participant makes their first contribution into the SIMPLE IRA account. Once the new 401(k) plan is established, participants that have been in the SIMPLE IRA contract for over two years may roll their monies over to the 401(k) if the new plan allows for such monies to be rolled into the plan.

As always, it is recommended employers consult with their tax advisor or financial advisor prior to considering any of the changes noted above.

TO FIND OUT MORE ABOUT THESE TYPES OF PLANS AND HOW THEY CAN HELP YOUR FUTURE, CONTACT US TO DISCUSS YOUR OPTIONS.

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