Investment Insight: Small Employers Rely on SIMPLE IRAs

Small businesses comprise nearly half of the nation's private workforce.[1] And owners of small businesses realize that they must offer a retirement savings plan in order to attract and retain talented personnel..

Contemporary workers won't work without it. Surveys say that wage-earners value a retirement savings benefit second only to health insurance. Workers expect a framework in the workplace and they expect their employers to pitch in at both the monetary and administrative levels.

In 1996, Congress created an environment in which the financial services industry could provide a retirement plan for small business that's easy to establish and maintain. Parties came up with the SIMPLE IRA, which stands for Savings Incentive Match Plan for Employees of Small Employers. The new paradigm replaced the Salary Deferral SEP (SAR/SEP) of old. Business owners are attracted to SIMPLEs for the following reasons:

- Eligible employees can contribute up to $12,500 each year through a salary deferral via payroll deductions.
- Employers offer matching contributions equal to employee deferral contributions (up to 3 percent of pay); alternately, employers may contribute a "nonelective" or fixed contribution of 2 percent of pay to all eligible employees.
- SIMPLE plans eliminate many of the administrative costs associated with larger retirement plans.
- Model plan documents, employee notices and salary reduction agreements are available from the IRS.
- All contributions made under a SIMPLE plan are fully vested—that is, all contributions by the employer and the employee immediately belong to the employee.

One big advantage they offer over their peers is that they do not require discrimination testing of salary deferrals. In other words, employers with a SIMPLE plan are not obligated to compare the salary deferrals of workers at the top of a wage scale with those at the bottom. The bottom line is this: because discrimination testing is not required, some employees will be able to defer more money (as a percentage of their wage) into a SIMPLE than they could in the 401(k) paradigm.

SIMPLEs are popular, but that does not mean they are a good fit for every business. Consult Hilliard Lyons for help in determining an appropriate benefit plan that fits the specifics of your enterprise.

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The complexities of building, preserving and passing along wealth have never been greater. Affluent investors are increasingly seeking guidance and comprehensive solutions that consider their unique circumstances and long-term goals. It's my pleasure to work with such individuals to offer insight, advice and solutions in helping them pursue their goals.

This means that workers in their peak earning years, and business owners alike, can make the most of payroll deductions dedicated to retirement savings. Contact Hilliard Lyons to see if your business qualifies for the SIMPLE. It's quick, easy and might be the best thing you could do for your workforce.

A Business Owner's Guide to Critical Features:

- The SIMPLE IRA is similar to other salary deferral plans in that workers may contribute on a tax-deferred basis.
- SIMPLEs are designed for employers with a workforce of 100 employees or less, any number of whom may choose to participate.
- The deferral ceiling for employees who choose to participate is lower in a SIMPLE IRA than in other tax-qualified retirement plans.
- In 2017, the elective deferral limit on these contributions is $12,500.
- Participants aged 50 or older are allowed to make catch-up contributions over and above their other efforts as follows: In 2017, the contribution ceiling on catch-ups is $3,000.

Who on the Payroll is Eligible to Participate?

- Employees who have earned $5,000 in any two preceding years and are expected to earn $5,000 in current year.
- Participation is voluntary. Employees can opt in or out at any time once they reach the date of eligibility.
- Employees covered by a collective bargaining agreement (negotiated contract) for which retirement benefits were part of good-faith bargaining may be excluded from SIMPLE plan participation.
- Employers may boost the number of employees eligible to participate by lowering the amount an employee must earn (for example, from $5,000 to $3,000) or by allowing all employees to participate regardless of how much they earn.

Advantages of a SIMPLE:

- No filing requirements with the Internal Revenue Service or U.S. Department of Labor
- Not subject to top-heavy rules
- No discrimination testing
- Flexible investments
- No fiduciary liability
- All assets invested in an IRA
- Minimal administrative costs

Disadvantages of a SIMPLE:

- Employer contributions are mandatory each year. Furthermore, employers must match employee deferral in good years and bad. If profits fluctuate, this obligation may be uncomfortable.
- There is a limit/ceiling on the employer's contribution level. The employer is not allowed to contribute more than 3 percent of each worker's gross compensation.
- Workers are 100 percent vested immediately upon enrollment.
- SIMPLEs may not be combined with any other employer-sponsored retirement plan in a firm's benefit arsenal.
- Pay-outs must begin at age 70½.

Be aware: SIMPLEs are popular, but that does not mean they are a good fit for every business. Consult Hilliard Lyons for a chart that will help you settle on an appropriate benefit plan for the specifics of your enterprise.

1 U.S. Small Business Administration 2013.