

# **RETIREMENT PLANNING WITH SIMPLE**

## **AUGUST 2006**

The Savings Incentive Match Plan for Employees (SIMPLE) is one of the most useful tax-deferred retirement plans available to small companies. The SIMPLE allows for the employer and key employees maximum contributions while not necessitating the same from other workers.

Self-employed individuals may have SIMPLE plans as well as small-business owners with less than 100 employees who have a least earned \$5,000 during the preceding calendar year. These small-business owners cannot have SIMPLE plan if they have another retirement plan. However, if you have a second or sideline business you may open a SIMPLE account. In order to be covered an employee must have earned at least \$5,000 during each of any two preceding years and must expect to earn at least \$5,000 during the current year. This caveat allows for some flexibility for the business owner because they may exclude part-time workers.

The maximum SIMPLE plan contribution for 2006 is \$22,500 which is broken down into a \$10,000 elective deferral, a \$10,000 employer match, and a \$2,500 catch up contribution if you are at least 50 years old. SIMPLE plan participants may contribute 100% of their income from that business up to \$10,000 (\$12,500 if age 50 and above) which is great for sideline business owners. Another great caveat regarding the SIMPLE is there are no discrimination rules which would limit the amount of money employers can earmark for family members. Family members that you employ can maximize contributions even if none of the other employees contribute.

There are two types of SIMPLE plans: the SIMPLE 401k and the SIMPLE IRA. The SIMPLE 401k the employer must set up a trust with a financial institution. Form 5500 (Annual Return/Report on Employee Benefit Plan) must be filed annually with the IRS. The SIMPLE 401k is for all intensive purpose another 401k plan with greater costs to maintain. Non-deductible employee contributions and rollover contributions may not be made to a SIMPLE 401k. SIMPLE IRA's are more advantageous due to the fact that form 5500 does not need to be filed alleviating accounting expenses. Each employee directs their own account eliminating another liability as well.

There are other rules and caveats that small-business owners need to comply when setting up a SIMPLE plan including employer match requirements and notifications. Each business and situation is unique and we can help in putting the right plan in order. Time is running out for 2006 with the deadline for starting a SIMPLE being October 1<sup>st</sup>. If you have any further questions regarding establishing and maintaining retirement plans such as the SIMPLE please do not hesitate to ask at (800) 447-0579. For further information on the SIMPLE check out [www.irs.gov](http://www.irs.gov).