

SIMPLE IRAs vs. 401(k) Plans

Major differences:

	SIMPLE IRA's	401(k) Plans
Individual or group pricing	Individual	Group
2025 Contribution limits	\$16,500	\$23,500
2025 Catch-up limits	\$3,500	\$7,500
2025 Enhanced Catch-up limit (ages 60-63)	No	\$11,250
Roth	Yes	Yes
Loans available	No	Yes
Automation (remitting contributions)	Rarely	Yes
Exclude employees <1k hours	No	Yes
Profit Sharing	Yes	Yes
Vesting schedule on Employer contributions	No	Yes
Automatic Enrollment	Yes	Yes
Match - SIMPLE v. 401k Safe Harbor	3%	4%
Nonelective - SIMPLE v. 401k Safe Harbor	2%	3%
Fiduciary liability to the Employer	None	Yes
Testing requirements	No	Yes
Form 5500 filing required	No	Yes
ERISA bond needed	No	Yes
TPA needed (admin cost)	No	Yes

New in 2024:

Mid-year transitions from SIMPLE IRA plans to Safe Harbor 401(k) plans allowed with conditions.

SIMPLE IRA Plans:

- Employers with fewer than 100 employees earning \$5k last year and reasonably expected to earn more than that this year are allowed to have SIMPLEs.
- Part-timers earning more than \$5,000 per year cannot be excluded.
- Employee may distribute account at any time, subject to income taxes and possible 25% penalty.
- Employer contributions (mandatory, with exceptions): 3% Match or 2% Nonelective
 - 99% of SIMPLE IRA plans are dollar for dollar match on 3% of pay.

New in 2024:

Employer's may make an additional 10% non-elective contribution up to \$5,000

401(k) Plans:

- Higher contribution limits
- Flexibility in plan design
 - Eligibility/Entry (including ability to exclude classes of employees or those who work less than 1,000 hours in a year).
 - Conditions on Employer contributions (Match, Profit Sharing)
 - Last Day Rule and/or 1,000 hours requirement
 - Ability to make discretionary Match and/or Profit Sharing contribution, including advanced allocation formulas (eg: New Comparability)
- Safe Harbor plan design options (helps with testing).
 - Eliminates discrimination testing on deferrals
 - Is used to satisfy Top Heavy requirements if a plan is using Profit Sharing
 - Is used in the New Comparability calculations
- Loans can be permitted
- Distribution options may be permitted (ie: Age 59 ½, Hardships)

New in 2025:

Enhanced Catch-up for participants aged 60-63

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