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# SIMPLE IRA vs. 401(k) plan

## Plan comparison chart

SIMPLE IRA plans and 401(k) plans are among the most popular retirement savings plans offered by small employers. The following chart compares features of the SIMPLE IRA plan and the 401(k) plan.

	SIMPLE IRA plan	401(k) plan
Eligible employers	<ul style="list-style-type: none"><li>Limited to businesses with 100 or fewer employees</li><li>SIMPLE IRA plan must be the only retirement plan</li></ul>	<ul style="list-style-type: none"><li>Employer of any size except a state or local unit of government</li><li>May be offered in combination with other plans (e.g., defined benefit plan)</li></ul>
Employee eligibility	Must cover all employees who have compensation of at least \$5,000 in any prior 2 years and are reasonably expected to earn \$5,000 in the current year	May require employees to be up to age 21 and work at least 1,000 hours in previous year (or 2) to be eligible to participate
Employee salary deferral limit	\$16,500 (for 2025) pretax and Roth	\$23,500 (for 2025) pretax and Roth
Employee age 50 catch-up contribution limit	\$3,500 (for 2025)	\$7,500 (for 2025)
Employer contributions	<ul style="list-style-type: none"><li><b>Mandatory</b> (Employer must choose one of the contribution methods)<ul style="list-style-type: none"><li>3% matching contribution</li><li>2% nonelective contribution</li></ul></li></ul>	<ul style="list-style-type: none"><li><b>Optional</b><sup>1</sup><ul style="list-style-type: none"><li>Matching</li></ul></li></ul>
Employer profit-sharing contributions	Not available	<ul style="list-style-type: none"><li>Optional</li><li>Multiple allocation formulas available</li><li>May be able to contribute higher percentage to owners and senior managers (e.g., age-weighted or new comparability formulas)</li></ul>
Investment alternatives	Will vary depending on SIMPLE IRA service provider	Typically a broad range of investment alternatives — multimanager, multiple mutual fund share classes (e.g., I Shares, R shares) <sup>2</sup>
Responsibility for selecting investments	Individual employees are responsible for choosing investments for their SIMPLE IRAs from the options offered by the SIMPLE IRA provider	<ul style="list-style-type: none"><li>Employer selects a menu of investment alternatives for the plan</li><li>Employees are typically responsible for choosing how their plan balance will be allocated among the investment alternatives</li><li>Professional investment advice services may be available to employer and/or employees</li></ul>



Changing plan solutions is an important decision. As with any major employee benefits decision, consult with your tax and legal advisors regarding the best option for your business and your employees. Make sure you compare the costs and administrative responsibilities for 401(k) and SIMPLE IRA plans before making your decision.

	SIMPLE IRA plan	401(k) plan
Maximum annual contributions (Employer and employee contributions combined)	<ul style="list-style-type: none"><li>• \$16,500 employee contribution, plus \$3,500 catch-up contribution if eligible (for 2025)</li><li>• 3% employer-matching contribution or 2% nonelective contribution</li></ul>	<ul style="list-style-type: none"><li>• 100% of compensation up to \$70,000, plus \$7,500 catch-up contribution if eligible (for 2025)</li></ul>
Nondiscrimination testing	<ul style="list-style-type: none"><li>• No</li></ul>	<ul style="list-style-type: none"><li>• Each year plan must pass nondiscrimination tests that prevent the plan from disproportionately benefiting the highly compensated individuals as compared to rank and file employees</li><li>• Adoption of a Safe Harbor 401(k) plan feature will eliminate the need for nondiscrimination testing</li></ul>
Vesting	<ul style="list-style-type: none"><li>• Both employer and employee contributions — 100% immediate</li></ul>	<ul style="list-style-type: none"><li>• Employer contributions — may vest over time (up to 6 years)</li><li>• Employee contributions — 100% immediate</li></ul>
Withdrawals	<ul style="list-style-type: none"><li>• Available at any time</li><li>• 25% early distribution penalty may apply within first 2 years, 10% penalty thereafter</li></ul>	<ul style="list-style-type: none"><li>• Restricted to specific events permitted by regulations and plan document (e.g., age 59½, death, disability, severance of employment, plan termination)</li><li>• Plan may also permit distributions if employee incurs certain financial hardships</li><li>• 10% early distribution penalty</li></ul>
Loans	<ul style="list-style-type: none"><li>• Not permitted</li></ul>	<ul style="list-style-type: none"><li>• Plan may permit</li></ul>

**Timeline for transitioning from a SIMPLE IRA to a 401(k) plan**

To offer a new 401(k) plan beginning January 1, 2025, you will typically need 3–4 months for plan setup and employee enrollment. An employer cannot offer another retirement plan, such as a 401(k) plan, if they offer a SIMPLE IRA plan. To terminate the SIMPLE IRA plan, an employer must provide written notice to its employees at least 60 days prior to the termination. In order to have a 401(k) plan up and running by January 1, 2025, employers must provide SIMPLE IRA plan termination notices no later than November 1, 2024.

**For more information on our retirement plan services, please contact your local financial professional or call our Sales Desk at (866) 401-3030, Option 1.**

1 If an employer adopts a Safe Harbor 401(k) plan feature, employer contributions are mandatory.

2 Access to additional share classes such as I shares and R shares will vary depending on the 401(k) product and plan size.

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