DAVENPORT
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1863

SIMPLE IRA

CAN YOU AFFORD TO RETIRE?

Many Americans have put off saving for retirement. Some consider themselves too young to worry about it. Others believe Social Security will be a primary source to supplement their income during retirement; still others tend to think their employers will take care of it, perhaps by funding a retirement plan.

Due to the large demands on time, capital, and energy, many small business owners have delayed planning for retirement. For some, typical retirement plans have been deemed too costly or too restrictive. Even when established, many plans are required to pass strict anti-discrimination tests.

Designed for employers with 100 or fewer employees, SIMPLE IRAs include employee salary deferrals, as well as employer contributions, without the costly administration expenses associated with most retirement plans. The SIMPLE IRA allows employers to match employee's deferrals or make a non-elective contribution for all eligible employees.

Salary deferrals are calculated on a pre-tax basis; therefore, employees may pay less in taxes. Each contribution is deducted directly from the employee's paycheck which may make saving for retirement much easier.

HIGHLIGHTS OF A SIMPLE IRA

Eligible employers must have 100 or fewer employees and not sponsor any other active qualified plan.

Eligible employers may require employees to have received at least $5,000 in compensation in any two prior years. Less restrictive options are also allowed. Employers may also exclude union members covered under a collective bargaining agreement.

CONTRIBUTIONS

Employees may defer up to $15,500 in 2023 on a pre-tax basis. In addition, participants age 50 and above can contribute an additional $3,500.

Employers may choose to fund SIMPLE IRAs using one of the following methods:

- Make a matching contribution equal to each employee's salary reduction, up to a limit of 3% of compensation.
- Make a matching contribution to each employee's salary reduction, in an amount less than 3% but not less than 1% of compensation. This option is available only for two of any five years.
- Make a non-elective contribution to all eligible employees equal to 2% of compensation.

Notification: Employers are required to provide employees with notification 60 days prior to the effective date of the plan. This notification must include the contribution formula elected by the employer.

Vesting: All contributions are fully and immediately vested to employees.

Early Withdrawal Penalties: Withdrawals prior to age 59½ and within the first two years of the initial contribution are subject to a 25% penalty plus ordinary income tax. After two years, a 10% penalty applies plus ordinary income tax for withdrawals prior to the age 59½.

Self-Direction: All SIMPLE IRAs are self-directed by each employee, thus reducing the fiduciary responsibility of the employer.

Investment Options: Davenport & Company offers many investment alternatives. Since SIMPLE IRAs are self-directed, the employee has a variety of investments from which to choose. These include stocks, bonds, mutual funds, and money market funds. Additionally, we work with many providers, including mutual fund platforms that sponsor SIMPLE IRA turnkey arrangements. A Davenport Financial Advisor is available to help employees make appropriate investment selections.

To learn more about SIMPLE IRAs, we invite you to contact the Davenport & Company office nearest you and speak with one of our Financial Advisors.

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