Act.

Ken Berry • Mar. 24, 2023

As the name implies a SIMPLE plan—short for Savings Incentive Match Plan for

If the employer chooses, it can establish less restrictive eligibility requirements. Note that this type of plan is also available to self-employed individuals.

The contribution limits are indexed annually for inflation. For 2023, the maximum contribution is $15,500. Plus, an employee age 50 or older can add a "catch-up contribution" of up to $3,500, for a maximum total of $19,000. Generally, the employer must provide matching elective contributions of up to 3% of compensation (but not less than 1% in no more than two out of five years) or non-elective contributions of 2% of each eligible employee's compensation (based on a maximum compensation of $330,000 in 2023). These contributions are deductible by the employer.

SECURE Act 2.0 raises the ante. Beginning in 2024, the catch-up contribution limit for a SIMPLE plan is increased by 10% for employers with no more than 25 employees. Employers with 26-100 employees may provide these higher limits if they make a 4% matching contribution or a 3% employer contribution.

In addition, the new law creates a new SIMPLE plan catch-up contribution limit for those age 60-63 years. Beginning in 2025, the limit for that group is equal to the greater of $5,000 or 150% of the regular 2025 catch-up contribution amount. This will also be adjusted annually for inflation after 2025.

Note that contributions to SIMPLEs vest immediately. Thus, employees have the ability to withdraw funds from the plan at any time, subject to an early withdrawal penalty. However, withdrawals made prior to age 59½ that don't qualify under one of the tax law exceptions are hit with a penalty tax.

Caution: The usual 10% penalty for an early withdrawal from a qualified plan is increased to 25% during the first two years of participation in the SIMPLE. After two years, it reverts to the normal 10% penalty.

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