

Helping your employees meet their retirement goals is simple.



You want to offer a retirement plan to your employees. But you don't have the resources to manage the paperwork, reporting and complex rules of traditional pension plans. Consider the SIMPLE answer. If you're a business, nonprofit group or governmental group, consider a SIMPLE IRA Plan. It's an easy way to help your employees move towards retirement.

What is a SIMPLE IRA Plan?

A SIMPLE IRA Plan is an employer-sponsored retirement plan in which the employee has the option to defer a portion of his or her salary and receive matching contributions from the employer. Each employee establishes an Individual Retirement Account (IRA) which may be funded by an annuity from American Family Life Insurance Company.

While not subject to current income taxes, salary deferrals made by employees must be included with other wages for purposes of Social Security and unemployment taxes. Employer contributions are tax-deductible to the employer. Contributions from both parties grow tax-deferred until withdrawn and are subject to Traditional IRA tax rules.

Who is an eligible employer?

Generally, an eligible employer is an employer who had no more than 100 employees who earned \$5,000 or more in compensation during the preceding year. In addition, an employer who sponsors a SIMPLE IRA Plan generally may not maintain any other qualified plan in which employees accrue benefits in the same calendar year.

How is a SIMPLE IRA Plan established?

Establishing a SIMPLE IRA Plan is a relatively easy and inexpensive process. First, the employer completes Form 5304-SIMPLE to establish the plan and communicate to the employees what the employer-matching contribution will be for the calendar year. Then, each employee establishes a SIMPLE IRA to hold the contributions. SIMPLE IRA plans must be operated on a calendar year basis.

Which employees are eligible to participate?

Employees must be allowed to participate in the plan if they received at least \$5,000 in compensation from their employer during any two preceding years and are reasonably expected to receive at least \$5,000 in compensation in the current calendar year. Exceptions exist for certain collectively bargained employees and nonresident aliens.

The employer may elect to have less restrictive eligibility requirements for compensation and years of service. Age and employment status (full or part time) are not factors in determining eligibility.

How much can an employer contribute?

The amount of contribution is determined by the employer who may choose to make a 1%, 2% or 3% matching contribution. The employer is required to notify employees of the matching contribution 60 days prior to the plan year, which typically means before November 1st of each year.

Contributions to a SIMPLE IRA Plan by the employee are matched dollar for dollar by the employer at either 1%, 2% or 3% of the employee's gross annual compensation.

Although the employer may choose to make a 1% or 2% matching contribution, these reduced contributions are only allowed for two calendar years in every five-year period. A 3% contribution must be made in the remaining years.

In addition, instead of making a matching contribution, the employer may select an alternative 2% non-elective contribution. In that event, all

eligible employees must be included regardless of whether or not the employee has made a salary deferral. The nonelective contribution is subject to compensation limits as determined by the IRS.

How much can an employee contribute?

Contribution limits are set by the IRS and indexed to reflect any cost-of-living increases. SIMPLE IRAs may not accept Traditional or Roth IRA contributions.

Can employees make withdrawals?

SIMPLE IRA assets are immediately 100% vested to employees and may be withdrawn at any time.

However, withdrawals by employees are taxed as ordinary income in the tax year withdrawn. Generally, withdrawals made prior to age 59½ are subject to a 10% early withdrawal penalty, except for the two-year period beginning on the date the employee first participated in a SIMPLE IRA, where the penalty is 25%. An annuity product's surrender charge may also apply.

A SIMPLE IRA may be transferred into another SIMPLE IRA at any time. However, an employee must wait two years from the date of the initial contribution before becoming eligible to roll SIMPLE IRA assets into a Traditional IRA or convert to a Roth IRA.

Which businesses may establish SIMPLE IRA Plans?

SIMPLE IRA Plans may be established by traditional business entities such as sole proprietorships, partnerships and corporations. In addition, nonprofit, tax-exempt and governmental groups may establish SIMPLE IRA plans.

A SIMPLE IRA plan may be a good fit for employers who wish to offer a retirement plan that allows them to match employee contributions without all of the administrative paperwork, cost, IRS annual Form 5500 reporting requirements, and complex rules of traditional pension plans.

Plan determination letters, nondiscrimination testing and top-heavy rules do not apply to SIMPLE IRAs.

What if a retirement plan already exists?

An employer maintaining a SIMPLE IRA Plan may not maintain other qualified plans in which employees accrue benefits (other than a plan covering only collectively bargained employees). This does not mean that an employer may not establish a SIMPLE IRA Plan. It simply means that an employer may not maintain two plans at once.

For example, if an employer previously maintained a defined contribution plan, a SIMPLE IRA Plan may be established providing that employees do not receive an allocation of a contribution for the plan year beginning or ending in the same calendar year as the SIMPLE IRA Plan. Simply stated, the employer would direct contributions to the SIMPLE IRA Plan instead of the defined contribution plan.

For a defined benefit plan, employees would not be permitted to have an increase in a benefit during any year in which the SIMPLE IRA Plan is maintained.

SIMPLE IRA Plan versus 401(k) Plans

ITEM	SIMPLE IRA	TRADITIONAL 401 (K)
Governing Document	IRS Form 5304-SIMPLE	Individual trust or prototype document
Employer Eligibility	Employers with 100 or fewer employees who earned \$5,000 or more in compensation.	Non-government organizations only
Employee Eligibility	Earn \$5,000 or more in any two prior years and expected to earn \$5,000 in current plan year.	Age 21 and 12 months with at least 1,000 hours of service
Initial Fees and Administrative Costs	Cost may be nominal	Costs can be high based on complexity
Can the employer maintain another retirement plan?	No	Yes
Vesting of Employer's Contribution	Immediate and full	Graded schedule for matching contributions permissible
Maximum Employer Match	100% of first 3% of income deferred by the employee	Flexible
Flexibility of Match	With advance notice, may reduce to 1% or 2% for two calendar years of every 5-year period	Yes
Alternative Nonelective Contribution	With advance notice, 2% for all eligible employees	N/A
Loans	No	Yes
Top-Heavy Rules	No	Yes
Average Deferral % Test	No	Yes
Average Contribution % Test	No	Yes
Form 5500 Filing	No	Yes

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Policy Form L-A10
ADL-31264 – 12/10
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