SIMPLE

SAVINGS INCENTIVE MATCH PLAN

Retirement Saving Made SIMPLE for Employees of Small Employers

What Is a SIMPLE?

A SIMPLE, or Savings Incentive Match Plan for Employees of Small Employers, is a salary reduction arrangement similar to a 401(k) plan. However,

HEADWATERS State Bank
MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION
FDIC

SIMPLE contributions are deposited into a unique SIMPLE IRA. This IRA can only accept contributions under a SIMPLE. No other IRA contributions are permitted.

What Are the Benefits of a SIMPLE?

Besides providing you and your employees with a more secure retirement, a SIMPLE offers several tax advantages:

- Employers can deduct employee elective deferrals and employer matching or nonelective contributions
- All contributions and earnings are tax deferred in employees' SIMPLE IRAs until distribution
- A SIMPLE does not have the testing requirements and procedures connected with other qualified plans

What Employers Are Eligible to Adopt a SIMPLE?

Any type of employer can adopt a SIMPLE if the employer meets two conditions:

- An employer must have had 100 or fewer employees who each received at least $5,000 of compensation for the preceding year. An employer must meet this condition for each year of the plan's existence. However, an employer who is no longer eligible under this rule, but has maintained the plan for one or more years, will be considered eligible for the two years subsequent to the year it last qualified.
- An employer cannot maintain certain other retirement plans while maintaining a SIMPLE. This includes plans qualified under Internal Revenue Code (IRC) Section 401(a), annuity plans under IRC Section 403(a), government plans, tax-sheltered annuities under IRC Section 403(b), or a simplified employee pension (SEP) plan.

Which Employees Are Eligible to Participate?

An employee must be eligible if he/she received at least $5,000 of compensation during each of any two preceding years and is reasonably expected to receive at least $5,000

SIMPLE Offers Small Businesses a Better Way to Help Employees Save

during the current year. An employer can adopt less restrictive eligibility requirements. However, an employer may exclude certain employees covered under a collective bargaining agreement and/or certain nonresident aliens who had no income from sources within the U.S.

Who Can Make a Salary Deferral?

Any eligible employee may elect annually to defer a portion of his/her salary provided his/her total deferrals do not exceed the deferral limit for the year. See the chart that follows.

Tax Year	Deferral Limit
2002	$7.000
2003	$8.000
2004	$9.000
2005	$10.000
2006 and later	$10,000 + COLA

Annual cost-of-living adjustments (COLAs) will determine the deferral limit after 2005.

Eligible employees who have attained age 50 or older before the end of the tax year may defer an additional "catch-up" amount.

These "catch-up" amounts will be subject to COLAs after 2006.

Tax Year	Catch-up Amount
2002	$500
2003	$1,000
2004	$1,500
2005	$2,000
2006	$2,500
2007 and Later	$2,500 + COLA

Employers must give employees a 60-day election period, prior to the beginning of each SIMPLE plan year, to make a new salary deferral election or change an existing one.

Are Employers Required to Make Contributions?

Yes. Employer contributions are required in a SIMPLE. However, prior to the beginning of each plan year, an employer can choose between a matching contribution or a nonelective contribution.

A matching contribution must be 100 percent of an employee's deferral but not beyond 3 percent of compensation. In its annual notice, an employer may elect a lower matching percentage. This can never be less than 1 percent, nor can the employer elect to lower it in more than two years of a five-year period ending with the current year.

In lieu of a matching contribution, an employer could choose to make a nonelective contribution of 2 percent of eligible compensation for each eligible participant.

What Is Compensation?

Compensation is an employee's wages plus salary deferrals. For a self-employed person, compensation is net earnings from self-employment without regard to any SIMPLE contributions.

When Must Employers Make Contributions?

Employers must deposit employees' deferrals to SIMPLE IRAs as soon as reasonably possible, but no later than 30 days after the end of the month in which they were made. Employers can make matching or nonelective contributions as late as the due date (including extensions) of the employer's tax return for the year in which the plan year ends.

Can SIMPLE IRA Assets Be Moved to Another Account?

Yes. SIMPLE IRA assets can always be rolled over or transferred to another SIMPLE IRA. However, during the two-year period beginning on the date of the first contribution made on behalf of an employee, his/her SIMPLE IRA assets can only be moved to another SIMPLE IRA. Distributions during these two years not moved to another SIMPLE IRA may incur a 25 percent premature-withdrawal penalty tax.

What Are an Employer's Responsibilities?

Prior to the required 60-day election period each year, an employer must notify each employee that he/she has the opportunity to make a deferral election or change an existing one. The employer must declare whether it will make a matching contribution (and the percentage) or a nonelective contribution for the following calendar year. This notice must also include the Summary Description provided by the custodian/trustee.

What Are a Custodian's/Trustee's Responsibilities?

Each year an employer maintains a SIMPLE, the custodian/trustee of a SIMPLE IRA must provide a sponsoring employer with a Summary Description that contains the following information:

- The name and address of the employer and the custodian/trustee
- The requirements for eligibility for participation
- The benefits provided with respect to the arrangement
- The time and method of making elections with respect to the arrangement
- The procedures for and effects of withdrawals (including rollovers) from the SIMPLE IRA

This brochure is effective for tax-year 2002 and thereafter. This brochure is intended to provide general information on federal tax laws governing SIMPLE plans. It is not intended to provide legal advice or to be a detailed explanation of the rules or how such rules may apply to your individual circumstances. For specific information, you are encouraged to consult your tax or legal professional. IRS Publication 590, Individual Retirement Arrangements, IRS Publication 560, Retirement Plans for Small Business, and the IRS's web site, www.irs.gov, may also provide helpful information.