MIDWEST CAPITAL ADVISORS

# **SIMPLE IRA vs. 401(k):** Has your retirement plan kept pace with your business?

A SIMPLE IRA allows both employers and employees to contribute to a traditional retirement account. It is a common entry-level retirement plan for small business owners who do not currently offer a company sponsored plan.

Knowing the key differences between a SIMPLE IRA and a 401(k) helps you guide business owners toward the right plan at the right time.

| | SIMPLE IRA | 401(k) |
|---|---|---|
| Business size | Generally, businesses with fewer than 100 employees | Businesses of any size |
| Employee annual contribution limits for 2026 | $17,000 | $24,500 |
| Employee annual “catch up” contribution limits for 2026 (age 50-59) | $4,000 | $8,000 |
| Employee annual “catch up” contribution limits for 2026 (age 60-63) | $5,250 | $11,250 |
| Employee contribution options | Pretax and Roth contributions | Pretax and Roth contributions |
| Employer contributions | Mandatory matching or Employer contributions nonelective contributions; immediate vesting required | Not required. Matching and nonelective contributions available. Vesting schedule options available. |
| Loans | Not available | Available |

# The 401(k) Advantage

## Business size

A 401(k) plan offers the advanced features required to support businesses expanding toward 100 employees and beyond. When your team hits 100 employees, IRS rules come into play regarding how long you can keep your SIMPLE IRA before needing to upgrade your plan.

## Employer contribution option

Unlike SIMPLE IRAs — which mandate immediate vesting on required employer contributions — 401(k) plans introduce structural flexibility, allowing sponsors to implement custom vesting schedules and tailor plan designs.

## Employee contributions limits

Higher 401(k) limits empower both employees and business owners to maximize annual tax-deferred contributions.

## Loans

A major advantage of a 401(k) is the built-in financial safety net: it gives employees the flexibility to borrow from their account, a feature SIMPLE IRAs lack.

# Timing Matters

- Amendments to SIMPLE IRAs can only happen at the beginning of a calendar year and a 60-day notice to employees is required.
- Employers may terminate their SIMPLE IRAs at any time in the year as long as they replace it with a SIMPLE 401(k) plan, a basic safe harbor 401(k) plan, an automatic enrollment safe harbor 401(k) plan, or a starter 401(k) plan.

## Is it time to review your plan options?

**Scan to explore our growing library of resources designed to help businesses, employees, and individuals make informed decisions.**

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