

THE SIMPLE IRA PLAN

Savings Made Simple For Your Employees



ABOUT STIFEL NICOLAUS

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HEADQUARTERED IN ST. LOUIS, MISSOURI,
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Many small businesses face a unique set of circumstances. Besides competing with other companies in selling products or services, small businesses strive to provide employee benefits comparable with larger companies in order to retain quality employees. Maintaining a retirement plan is usually part of the benefits package, but these plans were not always easy to administer, maintain, or afford.

Legislation enacted in 1996 gave small businesses and their employees additional retirement options. The Savings Incentive Match Plan for Employees (SIMPLE) IRA gives employers a retirement plan that is simple to administer and maintain. It gives employees a retirement savings plan in which they can make tax-deferred contributions and have control of investments. The plan is available for employers who have less than 100 eligible employees and do not maintain any other retirement plans.

The SIMPLE Plan is designed to help small businesses meet today's challenges. Ask your Financial Advisor if the SIMPLE Plan is right for your business and employees. This brochure highlights some features of the SIMPLE Plan.

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Q: What is a SIMPLE IRA?

The SIMPLE IRA is an Individual Retirement Account that is established by a small business. It allows both employee and employer contributions to be made. The SIMPLE IRA works like an IRA in that contributions are made to an account in the employee's name and the funds are 100% immediately vested. The contributions earn and compound tax-deferred until distributions are taken from the account.

Q: What are the key employer benefits of SIMPLE IRA Plans?

Employers will especially like the simplicity of a SIMPLE IRA Plan, because it is much easier to establish and administer than a qualified plan. The SIMPLE IRA Plan provides a cost-effective way to establish a retirement plan for employees. All employer contributions and all amounts paid to employees as compensation and deferred by the participants to the plan are tax-deductible for the employer.

Q: How do I determine if I'm eligible to establish a SIMPLE Plan?

An eligible employer is one who has no more than 100 eligible employees and contributes to no other qualified plans.

Q: Who is an eligible employee?

An eligible employee is one who has received \$5,000 in compensation from the employer in any two preceding years and is reasonably expected to earn \$5,000 during the current plan year.

Retiremen



Q: I've heard the SIMPLE Plan is easier to establish and maintain than a traditional 401(k) plan. How so?

The SIMPLE IRA differs from traditional 401(k) plans most significantly in the fact that some of the most challenging contribution testing and nondiscrimination requirements do not apply as long as the limited number of SIMPLE rules are observed. Also, there is no DOL or IRS reporting, and top-heavy rules do not apply. The SIMPLE Plan is easily understood by employees, and the employer knows in advance approximately what its financial commitment will be. In addition, there are no fiduciary responsibilities.

Q: Do ERISA rules apply? SIMPLE IRAs are not subject to ERISA.

Q: What are the employee contribution limits? Employee deferrals are limited to \$11,500 (2011) and subject to annual cost-of-living adjustments (COLAs) in \$500 increments. In addition, individuals age 50 or older may take advantage of a \$2,500 (2011) catch-up contribution, subject to annual COLAs in \$500 increments. Employee deferrals may not exceed 100% of compensation.

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Q: What are the employer contribution limits and requirements?

Employers must either match each employee's elective deferrals dollar-for-dollar up to an amount equal to 3% of compensation or make a nonelective contribution for all eligible employees in an amount equal to 2% of compensation. In the event the employer elects the match, they may elect to match a lower percentage (but not lower than one percent) in any two years of a rolling five-year period.

Please Note: The compensation cap for the purpose of calculating nonelective contributions is \$245,000 for 2011 (subject to annual cost-of-living adjustments). Matching contributions are not subject to any compensation cap.

Q: Can the employer make discretionary contributions in addition to the mandatory 3% match or 2% nonelective?

No additional contributions are allowed.

Q: As an employer, can I maintain another employer-sponsored plan other than my SIMPLE IRA Plan?

Other plans can be maintained; however, you may not contribute to any other plans in a year in which you contribute to your SIMPLE IRA.

Q: How many eligible employees must participate in order to have a SIMPLE Plan?

There is no minimum number or percentage of eligible employees who must participate. Participation by employees is completely voluntary.

Retiremen

Q: When can I establish a SIMPLE Plan?

You may establish a plan at any time before October 1 of the first plan year. The plan must operate on a calendar-year basis. This means that the year in which the plan is established may be less than 12 months. Regardless, you must give your employees a Participation Notice with a 60-day election period. The Notice describes employee elective deferral rights and the annual employer contribution formula chosen. For new plans or newly eligible participants, the 60-day period must include either the date the employee begins participating or the day before that date.

— Mandatory Employer Contribution —

Matching Option

Nonelective Option

The employer contributes to SIMPLE IRAs of eligible employees who make contributions through deferrals, a dollar-for-dollar match up to 3% of the employee's compensation.

The maximum contribution is \$11,500 for 2011 (not including catch-up) for each contributing employee, subject to annual cost-of-living adjustments in \$500 increments.

The employer contributes 2% of compensation to the SIMPLE IRAs of all eligible employees, whether or not they contribute.

The maximum contribution is \$4,900 for 2011 for each eligible employee (the compensation cap of \$245,000 for 2011 x 2%).

t Plans



Q: When can I establish a SIMPLE Plan if I am currently maintaining another plan? If you have contributed to another plan for the current year, you must wait until the start of a new calendar year before your SIMPLE plan can take effect.

Q: Are there any disadvantages to a SIMPLE Plan from the employer's perspective?

The employer is required to contribute to the employee's SIMPLE IRA every year, and these mandatory employer contributions are vested immediately. Also, participants may not be able to contribute as much as they could potentially contribute to a 401(k) plan. While these reasons may be considered disadvantages in some cases, they may be outweighed by the benefits of the SIMPLE Plan.

Retinemen

Q: Does participation in the SIMPLE IRA Plan prohibit my employees from making a contribution to their personal IRA?

No. Employees can continue making contributions to their personal IRAs; however, becoming an active participant in a SIMPLE Plan may affect an employee's ability to deduct the IRA contribution, depending upon the employee's compensation level. The personal IRA contribution cannot be made into the SIMPLE IRA account. Separate SIMPLE IRA and IRA accounts must be established

Q: Are loans or withdrawals allowed with SIMPLE IRAs?

Loans are not available. Since the SIMPLE IRA is directed by the participant, the employer does not control withdrawals made by the employee. The employee can make withdrawals anytime, and all amounts are treated as ordinary income. Withdrawals prior to age 59 ½ are treated as premature distributions and are subject to a penalty. The penalty can be as high as 25% if withdrawals are made within the first two years of participation; after two years, the penalty decreases to 10%. Distributions can be taken penalty-free under the following circumstances: attainment of age 59 ½ or older; incurring a disability; payment for certain health insurance or medical expenses; payment for the purchase of a first home (\$10,000 lifetime maximum); taking equal, periodic payments based on life expectancy (for five years or until the age of 59 1/2, whichever is longer); death (payment to beneficiaries); payment for higher education expenses; for certain declared Presidential disaster area relief; or for individuals called to active duty.

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Q: Can assets be moved or transferred from a SIMPLE IRA?

SIMPLE IRA assets can be rolled over or transferred to a regular IRA two years after the employee initiates participation in the plan. Rollovers from one SIMPLE IRA to another are not subject to the same two-year restriction.

Q: What happens to the SIMPLE IRA if an employee terminates employment?

Because the employee is fully vested immediately, no money is forfeited by the employee. Of course, employer contributions cease upon the termination of employment, but the terminated employee may continue to maintain this IRA account.

Q: How will the SIMPLE IRA Plan affect my employee's tax situation?

Your employees may benefit from a reduced taxable wage base, because salary deferral contributions to the SIMPLE IRA plan are not subject to income taxes until the funds are withdrawn from the account. In effect, the SIMPLE IRA helps your employees in two ways — an immediate tax benefit and tax-deferred savings for retirement.

Q: What is the procedure for notifying my employees about the contribution formula I intend to use?

You must notify your employees annually, no later than 60 days before each plan year, as to which contribution formula you intend to use. Stifel will provide you with a form to do so.

Q: What if I have additional questions?

Please consult your Stifel Nicolaus Financial Advisor, who will be glad to answer any additional questions on this attractive retirement plan option for small businesses.

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