

SIMPLE IRA vs. Safe Harbor 401(k) vs. 401(k)

2021 comparison chart



Wealth
Management

Feature	SIMPLE IRA	Safe Harbor 401(k)	401(k)
Eligible employer	Employers who on any day during the preceding year have 100 or fewer employees earning \$5,000 or more in compensation. No other plan may be maintained at the same time.	Any business	Any business
Establishment deadline	October 1 of current year. Can be later if business is established after October 1.	<ul style="list-style-type: none"> • First day of plan year for plans that are amending to a Safe Harbor 401(k), assuming employees have received 30 days prior notice. • October 1 for new plans 	Last day of employer's taxable year
Eligible employees	Employees who receive at least \$5,000 in compensation in any two preceding years and are expected to receive \$5,000 in the current year are eligible. These requirements may be less restrictive.	May be less, but cannot exclude employees who: <ul style="list-style-type: none"> • Are at least 21 years old • Have completed at least one year of service • Serve 1,000 hours per year 	May be less, but cannot exclude employees who: <ul style="list-style-type: none"> • Are at least 21 years old • Have completed at least one year of service • Serve 1,000 hours per year
Contribution limits—employer	Employer must make matching contributions up to 3% of employee compensation or contribute 2% of total eligible employee compensation. Total employer contribution may not exceed \$13,500 per year (or \$16,500 if “catch-up” contribution for employees over age 50 is matched).	Employer must make dollar-for-dollar matching contributions up to 3% of employee compensation and 50 cents on the dollar for the next 2% of employee compensation, or contribute 3% of total eligible employee compensation. Additional discretionary profit-sharing contributions allowed. Total employer contributions may not exceed 25% of eligible payroll.	Employer's discretion; up to 25% of eligible payroll. Can be made as a matching or a profit-sharing contribution.
Deadline for employer contribution	Employer tax-filing deadline, including extensions.	Employer tax filing deadline, including extensions	Employer tax filing deadline, including extensions

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Feature	SIMPLE IRA	Safe Harbor 401(k)	401(k)
Contribution limits—employee	Employees may defer up to \$13,500 (2021 limit) per year, or 100% of compensation, whichever is less. Employees who are 50 or older can defer an additional \$3,000 for 2021.	Employees can defer up to \$19,500 (2021 limit) per year or 100% of compensation, whichever is less. Employees who are age 50 or older can defer an additional \$6,500 for 2021. Employee and employer contributions per employee cannot exceed \$58,000, or \$64,500 if age 50 or older. Safe Harbor plan automatically passes the IRS Actual Deferral Percentage (ADP) test.	Employees can defer up to \$19,500 (2021 limit) per year or 100% of compensation, whichever is less. Employees who are age 50 or older can defer an additional \$6,500 for 2021. Employee and employer contributions per employee cannot exceed \$58,000, or \$64,500 if age 50 or older, for 2021. Must pass IRS Actual Deferral Percentage (ADP) test.
Deductions & deferrals	Employer contributions are tax-deductible. Employee contributions are pre-tax and tax-deferred.	Employer contributions are tax-deductible. Employee contributions are pre-tax and tax-deferred.	Employer contributions are tax-deductible. Employee contributions are pre-tax and tax-deferred.
Vesting	100% vested immediately	100% vested immediately on safe harbor contributions. Vesting allowed on non-safe harbor, profit sharing contribution.	Several permissible vesting schedules
Loan provisions¹	None	Yes, if plan document allows	Yes, if plan document allows
Testing²	No testing required	The Safe Harbor plan will pass 401(k) ADP and ACP tests if Safe Harbor rules are followed. Top Heavy contributions may also be waived. ²	Subject to IRS testing (Top Heavy, ADP, ACP)
Distributions³	10% premature distribution penalty may apply; penalty is increased to 25% during first 2 years. Must begin distributions at age 72. In-service distributions allowed.	10% premature distribution penalties may apply. Must begin distributions at age 72 unless still employed ³ . In-service distributions available if plan document allows.	10% premature distribution penalties may apply. Must begin distributions at age 72 unless still employed ³ . In-service distributions available if plan document allows.

1. Loan Limits: Maximum of 50% of vested balance up to \$50,000. Payments must be made at least quarterly with level amortization.

2. If the plan uses the 3% non-elective contribution the plan will meet Top Heavy requirements. Also, the Top Heavy minimum contribution is waived for plans using the Safe Harbor matching contribution formula provided there is no allocation of any other employer contributions including reallocation of forfeitures. Such a plan would be exempt from the Top Heavy rules.

3. Owners of 5% or more of a company must start Required Minimum Distributions by the April 1 of the year following the year one attains the age 72.

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