

# SIMPLE IRA

A Simple Solution to Offering a Retirement Plan



Employer Guide

# WHY PACIFIC LIFE

It's essential for you to choose a strong and stable company that can help you and your employees achieve future income needs. Since 1868, individuals and their families have relied on the strength of Pacific Life to protect their financial security.

- Pacific Life Insurance Company is organized under a mutual holding company structure and operates for the benefit of its policyholders and contract owners.
- We have achieved ongoing recognition<sup>1</sup> for high-quality service standards.
- We offer products that address market environments during all stages of life.
- We maintain strong financial-strength ratings from major independent rating agencies.

Ratings may change and do not apply to the safety or performance of the underlying investment options or the mutual funds. For more information and current financial-strength ratings, please visit [PacificLife.com](http://PacificLife.com).

<sup>1</sup>Recipient of multiple DALBAR Service Awards since 1997. Refer to [www.DALBAR.com](http://www.DALBAR.com) for more information regarding awards, certification, and rankings.

Insurance products are issued by Pacific Life Insurance Company in all states except New York and in New York by Pacific Life & Annuity Company. Product availability and features may vary by state. Mutual funds are offered by Pacific Funds.

**No bank guarantee • Not a deposit • May lose value  
Not FDIC/NCUA insured • Not insured by any federal government agency**

# INVEST IN YOUR EMPLOYEES

Your employees are a vital part of the success of your business. One way to help retain your key employees and attract new talent is by offering a **Savings Incentive Match Plan for Employees (SIMPLE) IRA**.

## What Is a SIMPLE IRA?

A SIMPLE IRA is an employer-sponsored retirement plan that allows eligible employees to contribute a portion of their compensation before federal taxes are withheld and benefit from additional employer contributions.

A SIMPLE IRA may be most appropriate for employers with no more than 100 employees who want a retirement plan that has minimal administrative costs.

## Benefits

### Attract and Retain Valuable Employees

Offering a SIMPLE IRA plan may help attract top talent to your business and retain valuable employees.

A SIMPLE IRA plan provides your employees with the opportunity to:

- Save for retirement with pretax dollars.
- Receive additional employer matching contributions.
- Possibly reduce current taxable income.
- Accumulate tax-deferred contributions and earnings.
- Become 100% vested immediately in all contributions.

### Tax Advantages for Your Business

All employer contributions to the plan are 100% tax-deductible.

### Administration

The SIMPLE IRA plan is easy to administer and requires no annual Internal Revenue Service (IRS) reporting or filing (that is, filing IRS Form 5500). In addition, the plan does not require any IRS discrimination testing, which means that your employees are able to make maximum contributions to the plan even if other eligible participants do not participate, or they may defer only a small percentage of their salaries. Employers are required to provide employees with a summary description (annually) at least 60 days before the beginning of the plan year.

### Easy Plan Setup and Low Cost

A SIMPLE IRA is easy to set up and inexpensive in comparison to other employer-sponsored plans, such as defined-benefit pension or 401(k) plans.

### Investment Choices

Various investment choices for the SIMPLE IRA plan are available using variable annuities issued by Pacific Life and mutual funds offered by Pacific Funds.

# EMPLOYER

## ELIGIBILITY AND REQUIREMENTS

Below are the IRS requirements to establish a SIMPLE IRA plan.

### Eligible Businesses

All corporations, partnerships, sole proprietorships, tax-exempt organizations, and state and local government entities with no more than 100 employees are eligible to establish a SIMPLE IRA plan.

This 100-employee limit includes the total number of employees during the calendar year, regardless of whether they are eligible to participate in the plan. If the 100-employee limit is exceeded, your business is generally allowed two additional years during which the plan may continue to be funded.

### Exclusive Plan Rule

A SIMPLE IRA must be the only plan your business offers during that calendar year.

### Employees of Related Employers

All eligible employees of related employers must be allowed to participate in your SIMPLE IRA plan. Related employers include controlled and affiliated service groups, partnerships, and sole proprietorships.

### Deadline to Set Up

A SIMPLE IRA plan must be established between January 1 and October 1.



# EMPLOYEE

## ELIGIBILITY AND CONTRIBUTIONS

### Employee

#### Eligibility

Generally, an eligible employee for your SIMPLE IRA plan must meet the following two criteria:

1. Has earned at least \$5,000 in compensation from your business during any two previous years.
2. Is expected to earn at least \$5,000 in compensation during the current calendar year.

Your plan may impose less-restrictive requirements but cannot impose more restrictive ones. Nonresident aliens and employees covered under a collective bargaining agreement also may be excluded from your plan.

#### Contributions

In 2018, an eligible employee may contribute up to \$12,500 or 100% of compensation, whichever is less. This amount is increased to \$15,500 if the employee is age 50 or older or will turn age 50 in the current calendar year.

Employee salary-deferral contributions must be sent to the employee's SIMPLE IRA within seven business days of receipt or withholding.

### Employer

#### Contributions

While you are required to make contributions to each eligible employee's SIMPLE IRA, you do have the flexibility to choose between the following two options:

1. Match each employee's salary-deferral contributions dollar for dollar, up to 3% of compensation (including the deferred amount). You can also match as little as 1% of each employee's compensation for any two years out of a five-year period.
2. Provide a 2% non-elective contribution to **all** eligible employees regardless of whether or not they participate in the plan.

Employer matching or non-elective contributions must be made by the tax return due date of the business, including all extensions.

# IMPORTANT CONSIDERATIONS

Before you and your employees decide to participate in the plan, there are several important considerations that you need to know about.

## Rollovers/Transfers

SIMPLE IRAs can accept rollovers from IRAs (excluding Roth IRAs), qualified plans [for example, 401(a), 401(k), and TSA/403(b)], and government 457(b) plans after the two-year period is met.<sup>1</sup>

SIMPLE IRAs can accept tax-free rollovers/transfers from other SIMPLE IRAs at any time.

## Two-Year Rule

After the two-year period, an employee can roll a distribution from the SIMPLE IRA to another qualified plan [such as IRA, 401(a), 401(k), and TSA/403(b)] or governmental 457(b) deferred compensation plan that is willing to accept the rollover.

The two-year period begins on the first day in which contributions made by the employer are deposited in the employee's SIMPLE IRA account.

## Required Minimum Distributions (RMDs)

Distributions must begin no later than April 1 of the year following the year the employee reaches age 70½.

## Withdrawals

Withdrawals taken within the first two years of participation, before age 59½, will result in an additional 25% federal tax. Withdrawals taken after two years of participation, before age 59½, will result in an additional 10% federal tax.

If your employees qualify for an exception to the early withdrawal tax, they may not incur this additional penalty.

Some of the more common exceptions include:

- Death
- Disability
- Substantially equal periodic payments
- Certain medical expenses
- First-time home purchase
- Higher education expenses
- Health insurance premiums while unemployed

Loans are not permitted from SIMPLE IRAs.



<sup>1</sup>Please note: Pacific Life is not yet accepting these rollovers and is waiting on additional guidance from the Internal Revenue Service (IRS).

# ESTABLISH YOUR SIMPLE IRA PLAN

## Five Simple Steps

### 1 Complete and sign IRS Form 5304-SIMPLE.

Please keep this form for your records. It need not be filed with the IRS.

### 2 Communicate the SIMPLE IRA plan to your employees.

Distribute copies of forms to all employees at least 60 days prior to the plan start date.

- IRS Form 5304-SIMPLE
- Model Notification to Eligible Employees (page 3 of Form 5304-SIMPLE)

### 3 Conduct an enrollment meeting. (Optional)

Meet with your employees to explain the plan. This meeting may be coordinated with your financial advisor to help answer plan and investment questions.

### 4 Collect forms from eligible plan participants.

- Model Salary Reduction Agreement (page 3 of Form 5304-SIMPLE)
- SIMPLE IRA application
- Additional required forms, if applicable, usually relating to the investment option

### 5 Send contributions to Pacific Life.

Speak with your financial advisor for detailed payment instructions.

For more information about setting up a SIMPLE IRA plan with Pacific Life,  
talk to your financial advisor and visit our website for more information.  
[PacificLife.com](http://PacificLife.com)

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