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SCHWAB

Employer Q&A

Questions and
answers about the
Schwab SIMPLE IRA

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Here are answers to some questions you may have about a SIMPLE IRA Plan. Schwab investment professionals may be able to provide additional information you may need to help you understand how a SIMPLE IRA Plan can benefit you and your company. We suggest that you also consult with your tax advisor before establishing your company retirement plan.

Eligibility

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

Any employer, self-employed person, sole proprietor, partnership, or corporation with up to but not exceeding 100 eligible employees may set up this retirement plan.

However, you can't establish a SIMPLE IRA Plan if you already maintain an employer-sponsored retirement plan, such as a 401(k), Keogh, SEP-IRA, Money Purchase Pension, or Profit-Sharing plan, and you made a contribution to that plan for the same tax year. You also can't use a SIMPLE IRA Plan if your employees received an increase in their accrued benefits under a defined benefit pension plan. If you do have another plan, you should review your situation with your legal or tax advisor first.

Must I include all employees?

No. If you wish, you can exclude employees who are covered by a collective bargaining agreement, employees acquired in a merger or similar business transaction, or nonresident aliens with no U.S. income.

Which employees are eligible?

An employee is eligible to participate in your SIMPLE IRA Plan if he or she received \$5,000 or more in compensation from you in any previous two years and if you reasonably expect that the employee will receive at least \$5,000 in the current year. You can set a lower minimum compensation amount if you want to allow more employees to participate. Please note that Schwab does not accept SIMPLE IRA accounts for employees under age 18.

Are all of my eligible employees required to participate?

No. Participation is voluntary, and you may have a SIMPLE IRA Plan regardless of how many employees actually participate.

Can I get a tax credit for my costs to set up my plan?

Yes. An eligible employer establishing a new SIMPLE IRA may receive a tax credit for costs to establish, administer or educate employees about retirement planning. You can claim a credit of up to \$500 for each of the plan's first three years.¹

Are there fees for the SIMPLE IRA?

There are no fees to establish a Schwab SIMPLE IRA Plan or to maintain the accounts for you and your employees.

Please see the most current *Charles Schwab Pricing Guide*, including any amendments to the *Guide*, for details about our standard commission rates and other fees and charges that may affect the accounts for you and your employees.

Must my employees open their SIMPLE IRA accounts at Schwab?

No. They can open their SIMPLE IRA account at any financial institution that is willing to accept a Schwab SIMPLE IRA Plan account. But having an account at Schwab gives your employees access to the service, investment choices and convenience for which we're known. Once you've made contributions to their SIMPLE IRAs, employees own and control their accounts.

Contributions

What are the salary deferral contribution limits for a SIMPLE IRA Plan?

The chart below shows salary deferral contribution limits.

Salary Deferral Contribution Limit for Tax Year 2023	
Salary deferral contribution limit for those under age 50	Salary deferral contribution limit for those age 50 and over
\$15,500 ²	\$19,000 ²

As an employer, what amount must I contribute each year to my employees' SIMPLE IRA accounts?

Each calendar year you're required to select one of the following contribution methods for your SIMPLE IRA Plan:

	Matching Contributions	Nonelective Contributions
You contribute	To SIMPLE IRAs of eligible employees who make contributions.	To SIMPLE IRAs of all eligible employees, whether or not they contribute.
Amount contributed	Dollar-for-dollar match, up to 3%* of the employee's compensation. ³	2% of compensation. ³
Your contribution limits	Up to \$15,500 for each contributing employee for 2023. Additional salary deferrals for those age 50 and over are not eligible for matching.	\$6,600 for each eligible employee. ³

*Please note: In any two years of a five-consecutive-year period, you may use a dollar-for-dollar match of as little as 1% of compensation in place of 3% matching. If you decide to change the type or amount of contributions, you must notify employees at least 60 days before the start of the plan year.

Matching Contributions. With this option, you match the contribution of each participant on a dollar-for-dollar basis up to 3% of compensation. This amount can't exceed the salary deferral contribution limit for that year (see the chart at left). Remember that with this method you contribute only to the SIMPLE IRA accounts of those eligible participants who make salary deferral contributions. For no more than two years out of five you may match a smaller percentage, but not less than 1% of compensation.

A hypothetical example of how matching contributions are calculated for a company with four eligible participants is illustrated in the table on the following page.

Nonelective Contributions. If you select this option, you'll contribute 2% of each eligible employee's salary up to a maximum contribution of \$6,600,³ whether or not employees make contributions themselves.

In addition, each of your eligible employees can contribute up to 100% of compensation or the salary deferral contribution limit (see the table on this page), whichever is less, to his or her SIMPLE IRA before federal taxes.

A hypothetical example of how nonelective contributions are calculated for a company with four eligible participants is illustrated in the table on the following page.

How do SIMPLE IRA contributions affect personal taxes?

SIMPLE IRA contributions aren't subject to federal income taxes until you withdraw funds. However, they are subject to applicable Social Security and Medicare (Federal Insurance Contribution Act, or FICA; or Self-Employed Contributions Act, or SECA) and unemployment insurance (Federal Unemployment Tax Act, or FUTA) taxes. Participation in a SIMPLE IRA Plan doesn't reduce Social Security benefits. Employer contributions are not subject to FICA or FUTA but may be subject to SECA.

Matching Contributions					
Employee	Employee Salary	Employee Contribution	Employee Match %	Matching Contribution	Explanation
Business Owner	\$100,000	7% (\$7,000)	3%	3% (\$3,000)	The employer matches up to 3% of the employee's salary.
Employee 1	\$50,000	1.5% (\$750)	3%	1.5% (\$750)	Since the employee chooses to contribute 1.5%, the employer matches only that percentage, not the 3% maximum.
Employee 2	\$25,000	5% (\$1,250)	3%	3% (\$750)	The employer matches up to 3% of the employee's salary.
Employee 3	\$25,000	0%	3%	0%	Since the employee makes no contribution, there is nothing for the employer to match.

Nonelective Contributions				
Employee	Employee Salary	Employee Contribution	Nonelective Contribution	Explanation
Business Owner	\$100,000	7% (\$7,000)	2% (\$2,000)	The employer must contribute 2% of the employee's salary.
Employee 1	\$50,000	1.5% (\$750)	2% (\$1,000)	The employer must contribute 2% of the employee's salary.
Employee 2	\$25,000	5% (\$1,250)	2% (\$500)	The employer must contribute 2% of the employee's salary.
Employee 3	\$25,000	0%	2% (\$500)	The employer must contribute 2% of the employee's salary.

As a business owner, how do I calculate my own contributions if I'm self-employed?

Use your net earned income to calculate your contributions for the year. That's the income you earn from personal services to or on behalf of your business, minus your deductions (excluding any contributions to your account). You may contribute up to the annual salary deferral contribution limit (see the chart on page 4) or 100% of your net earned income, whichever is less.

When are SIMPLE IRA contributions vested?

All SIMPLE IRA contributions, both employer and employee, are immediately 100% vested.

May employees make changes to their salary deferral contribution amount during the year?

Yes. Employees can stop contributions at any time, provided they give advance notice to you. If you wish (though it's not required), you can establish a policy on the Participant Notice and Summary Description that permits your eligible employees to change the amount of their contributions during the year. Employees who wish to change or stop their contribution amounts should give your company's Plan Administrator a new completed, signed and dated Elective Deferral Agreement.

Contributions (Continued)

How do I notify my employees about the employer contribution method I intend to use?

Annually, and no later than 60 days before the new plan year, you must communicate the method you intend to use during the next plan year by giving your employees a completed Participant Notice and Summary Description.

When must I deposit employee salary deferral and employer contributions?

You need to coordinate with your payroll department to make sure that the deposits are made as soon as the employees' salary deferrals can be separated from the general assets of the business. IRS rules require that you make the salary deferral contributions no later than 30 days following the month in which you withheld the deferrals from an employee's salary.

However, you may make your employer annual matching or nonelective contributions anytime up to your business income tax filing deadline, including extensions.

How do I submit salary deferral contributions?

You can make salary deferral contributions by Direct Deposit (ACH), by Schwab MoneyLink® or by mailing a check.

Direct Deposit (ACH)

- Contributions are initiated at your banking financial institution.
- Contact your bank to authorize the bank to deposit the salary deferrals directly into each employee's SIMPLE IRA account, not into your group plan (SIMPLE IRA Master account).
- You do not need to send Schwab a Contribution Transmittal Form when using this method.

If your bank allows electronic funds transfers, you'll need to provide the bank with the following information:

- **Institution's Name:** JPMorgan Chase/Account of Charles Schwab
- **Address:** 211 Main Street, San Francisco, CA 94105
- **Phone:** 1-800-435-4000

- **Direct Deposit Routing Transit Number:** 071000013
- **Account Number:** 593853800XXXXXXXXX
(where "XXXXXXXX" represents the employee's eight-digit Schwab SIMPLE IRA account number)
- **Account Type:** Checking
- **Employee/Account Holder Name**

Note: Only salary deferral contributions can be made using the Direct Deposit method. All employer contributions must be made by MoneyLink or check.

MoneyLink

You initiate the MoneyLink service through Schwab by completing and returning a Contribution Transmittal Form. The form authorizes Schwab to transfer funds from your bank and lets Schwab know the amount that should go into each employee's SIMPLE IRA account.

Note: You must complete a Schwab MoneyLink Electronic Funds Transfer Form to establish the MoneyLink service for your SIMPLE IRA Master account.

Check

Simply mail us a check along with a completed Contribution Transmittal Form detailing how to allocate the contributions you're sending.

Can employees who contribute to a SIMPLE IRA also contribute to personal IRAs?

Yes, you and your employees can each contribute up to the lesser of \$6,500 (\$7,500 if you're age 50 or older)⁴ or 100% of your compensation to your personal IRAs. However, you can't put SIMPLE IRA contributions in a personal IRA. A separate SIMPLE IRA account must be established. Also, since the SIMPLE IRA Plan is considered an employer-sponsored retirement plan, depending on income and tax filing status, some or all of your personal IRA contributions may not be deductible.

Investment Choices

What investment choices are available for my Schwab SIMPLE IRA?

Schwab offers investment choices to help each participant tailor a portfolio that's right for them. Participants may select from a full range of investments and services—including mutual funds, stocks, fixed income securities, bonds, options, and investment advisory products—all in one convenient place.

What are investment advisory products?

Schwab's investment advisory products are a suite of fee-based investment service offerings that will provide your eligible plan participants with ongoing support and discretionary portfolio management. As the plan sponsor you decide whether or not to offer investment advisory products under your plan. There is no cost to you as the plan sponsor for making these products available to participants in your plan. The fees will apply to only those eligible participants who decide to enroll in these products.

How do I make investment advisory products available for my plan?

You don't need to do anything to make investment advisory products available under your plan. However, if you decide not to offer investment advisory products as an investment choice under your plan, you must complete and sign an Investment Advisory Products Opt-Out Form and return it to Schwab.

You can change your decision at any time by notifying us in writing.

Distributions

When can funds be withdrawn from a SIMPLE IRA?

While SIMPLE IRA contributions are meant for retirement, participants may withdraw funds (take distributions) at any time by completing and submitting a Schwab IRA Distribution Request Form. The distributed amount will be subject to ordinary income tax. And, if under age 59½, it may also be subject to a 10% federal tax penalty (a figure which increases to 25% if the withdrawal occurs within two years from the date an employee began participating in the plan). State tax penalties may also apply.

Administration and Rules

When can I establish a SIMPLE IRA Plan?

You can establish a plan any time between January 1 and October 1, but you must operate the plan on a calendar-year basis, even if your business tax year is a different 12-month period.

When must I notify my employees about yearly contribution determinations (often referred to as the "Open Enrollment Period")?

Employees must be allowed 60 days before the next year begins to determine how much of their compensation they wish to defer into the plan during that year. Since their decision depends in part on the employer's contribution for the coming year, that information must be provided to employees on or before November 1.

See the table on the following page to review the steps you, as the employer, must take each year to comply with the rules for SIMPLE IRAs.

As the employer, must I file any documents with the IRS when I set up a SIMPLE IRA Plan?

Generally, there's nothing you have to file with the IRS. However, you may want to consult with your tax advisor about your individual situation.

Administration and Rules (Continued)

Am I required to send out reports to my employees about their SIMPLE IRAs?

You must submit a Form W-2 annually to the IRS and to each employee, showing the employee's taxable income as reduced by his or her contributions.

Will Schwab send out any reports to me or my employees?

Schwab will send account statements at least quarterly to each account holder. Schwab will also send you, the employer, an annual notification about open enrollment.

How do I obtain additional forms and documents necessary for the ongoing administration of my plan?

We provide all of the forms to meet your ongoing plan administration needs online at Schwab.com. You can either complete the forms online before printing or you can print them and complete them by hand. Regulatory documents, such as the SIMPLE IRA Basic Plan Document, can also be accessed online.

Time Frame	Objective
Before November 1	Select one of the contribution methods for your SIMPLE IRA Plan (see pages 4–6 for more information).
On or before November 1	<ol style="list-style-type: none">1. Complete a Participant Notice and Summary Description. Select your yearly contribution method in Section 2, Part C.2. Photocopy the completed Participant Notice and Summary Description and distribute a copy to each eligible employee along with a copy of the Elective Deferral Agreement. Eligible employees include both those who are already contributing (or eligible to contribute) and those who are newly eligible for the coming year.
Before January 1	<ol style="list-style-type: none">1. Collect employees' Elective Deferral Agreements for the coming year.2. Arrange for withholding under the agreements, to begin with the first pay period in January.

Brokerage Products: Not FDIC-Insured • No Bank Guarantee • May Lose Value

Important Disclosures

This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified tax advisor, CPA, financial planner or investment manager.

Options carry a high level of risk and are not suitable for all investors. Certain requirements must be met to trade options through Schwab. Please read the Options Disclosure Document titled "Characteristics and Risks of Standardized Options" before considering any option transaction. Call Schwab at 1-800-435-4000 for a current copy. Supporting documentation for any claims or statistical information is available upon request.

¹The tax credit is subject to certain limits and restrictions. Please consult your tax advisor for information on your particular situation.

²May adjust annually for inflation but only in increments of \$500.

³The current compensation cap for calculating nonelective contributions is \$330,000 for tax year 2023 (subject to adjustments for inflation in \$5,000 increments). Matching contributions have no compensation cap. A compensation cap means that if the employee's compensation is over \$330,000 in tax year 2023, only \$330,000 will be used for calculation purposes in tax year 2022.

⁴For tax year 2023. Federal law provides for certain future increases and inflation adjustments.

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