SIMPLE IRA retirement plan

Understand the long-term impact of early withdrawals

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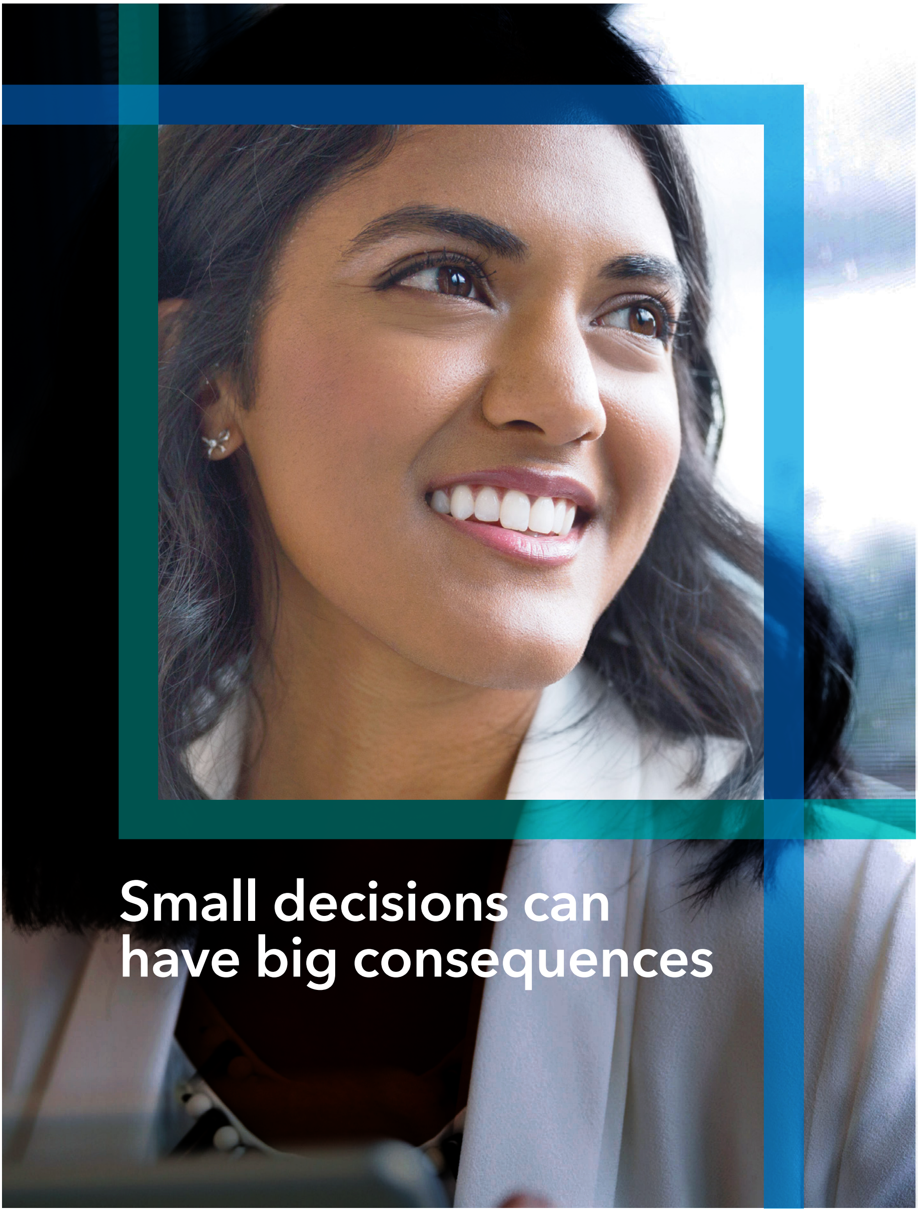


Don’t derail your savings

Taking early withdrawals from your SIMPLE IRA can cost you money in penalties and taxes and leave you with potentially less at retirement. That’s why you’ll want to think carefully before you take money out.

The benefits of your plan

Your Savings Incentive Match Plan for Employees (SIMPLE) IRA is designed to help you save for retirement. It offers a number of benefits, including:

- **Convenience –** You contribute through automatic payroll deductions.
- **Tax savings –** You make pretax contributions, reducing your current taxable income.*
- **Tax-deferred growth potential –** You don’t pay state and federal taxes on contributions and earnings until the money is taken out.*
- **Employer contributions –** Perhaps the most valuable benefit is that your employer contributes money to your account. All employer contributions are immediately vested.

The high cost of withdrawals

While financial circumstances may require you to take a withdrawal, doing so can carry some stiff tax penalties:

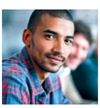
- **Early withdrawal penalty –** Before age 59½, you’ll incur a 10% federal penalty tax unless you qualify for an exception. This penalty is increased to 25% if you take a withdrawal within the first two years of participation in a SIMPLE IRA.*
- **Additional taxes and penalties –** Ordinary federal income tax, state and local taxes and additional penalties may apply.*

There are exemptions to the early withdrawal penalties for qualifying situations. Please consult your tax advisor for information.

Footnote:
*Roth contributions may be available for your plan. Roth contributions are taxed upfront, so contributions can always be withdrawn tax- and penalty-free. Earnings are tax- and penalty-free for qualified withdrawals. Please consult your tax advisor for more information.

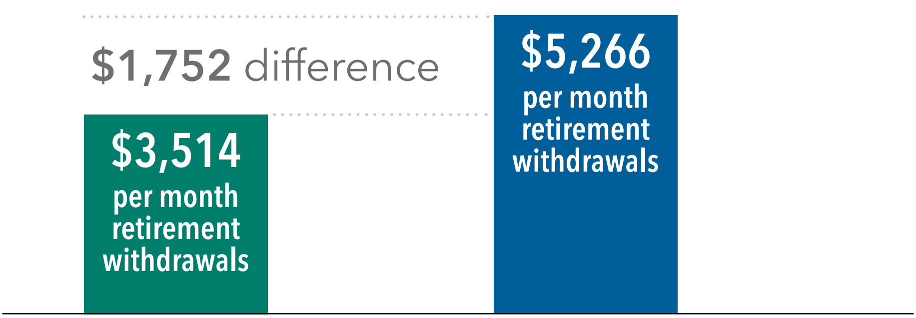
Avoiding early withdrawals could mean more money over the long term

Let's look at two similar SIMPLE IRA plan participants: Ed and Ava. They both work for the same company, earn the same salary, contribute the same amount, earn the same annual return and get the same employer match over 40 years. There's just *one* difference, as you'll see in the chart below:



Ed **withdraws** his employer's contribution immediately each year.

Ava **leaves** her employer's contribution in her account each year.



After 40 years of saving, Ava would be able to withdraw **$1,752 more per month** than Ed in retirement. And don't forget about early withdrawal penalties that may apply; learn more on the next page.

This hypothetical example assumes: $50,000 starting salaries; 2% annual salary increases, $300 pretax employee contributions every month, and that employer contributions, which are matched dollar for dollar up to 3% of salary, are invested once per year. Ed's withdrawals of employer contributions total $90,603 over 40 years. See page 4 for more hypothetical assumptions.

$1,000 payout? Not exactly

A 25% penalty will really reduce your payout. You may also owe federal income tax and state and local taxes, reducing that $1,000 even further.

Footnote:
*Penalty is based on a $1,000 lump-sum cash withdrawal of pretax contributions from a SIMPLE IRA taken within the first two years of establishing the account. SIMPLE IRA distributions are subject to ordinary income tax and, if applicable, to an additional 10% federal penalty on early withdrawals, or a penalty of 25% on early withdrawals taken within the first two years. Many states will charge additional taxes or penalties, reducing the final amount even more. Your tax rate may differ.

Evaluating the situation

Consider the consequences:

- **A tax hit –** You may owe the IRS a 10% or 25% penalty on your withdrawal amount (in addition to ordinary federal taxes), depending on the circumstances.
- **A setback to your saving –** Taking money from your account now could keep you from meeting your retirement goals.

Withdrawal checklist

Thinking about a withdrawal? Before you act, ask yourself:

- ☐ Is this a financial emergency?
- ☐ Have I considered other financial resources?
- ☐ What impact will a withdrawal have on my retirement savings?

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Determine your next step. Before making any tax-related decisions, check in with your personal tax advisor or your plan's financial professional.

Footnote:
†As of December 31, 2024.

All hypothetical examples assume an 8% average annual return compounded monthly and a constant annual withdrawal rate equal to 4% of the value of the account at the end of the accumulation period. These are point-in-time views and, as such, do not take into account any growth or loss during retirement. Without investment growth/loss during retirement, a 4% annual withdrawal rate would deplete retirement savings in 25 years. Examples are for illustrative purposes only, assume tax-deferred contributions and do not reflect the results of any particular investment, which may differ, or taxes that may be owed on tax-deferred contributions, including the 10% penalty on withdrawals taken before age 59½ (25% during the first two years of participating in the SIMPLE IRA plan). Regular investing does not ensure a profit or protect against loss in a declining market.

Capital Client Group, Inc.

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