

SIMPLE IRA: Small Steps, Long-Term Savings

A plain-English guide for employees and small-business owners • 2026 edition

Compliments of Lenny G. Letcher, EA, RFC • www.lennyletcher.com

The short answer

A SIMPLE IRA lets you save for retirement through payroll deductions, with contributions from your employer. You own all contributions immediately. Traditional contributions can reduce current federal taxable income, and investment earnings grow tax-deferred until withdrawn.

How the money gets into your account

You contribute	Your employer contributes	You own the account
You elect an amount or percentage of pay, subject to the plan and annual limits. Payroll sends the money to your SIMPLE IRA.	The annual notice explains whether the employer matches your savings or contributes for eligible employees regardless of whether they save.	Your contributions and the employer's contributions are immediately 100% yours. There is no waiting period to become vested.

Understanding a 3% company match

A dollar-for-dollar match up to 3% of pay means the employer matches what you contribute, up to that ceiling. It does not mean the company contributes only 3% of your contribution. Your employer's annual notice controls the formula for your plan.

Annual pay: \$40,000	You save	Company adds	Total saved
You contribute 1%	\$400	\$400	\$800
You contribute 3%	\$1,200	\$1,200	\$2,400
You contribute 5%	\$2,000	\$1,200	\$3,200

Examples assume a full-year 3% matching formula, eligible compensation of \$40,000, and no other limitations. With a matching formula, contributing nothing generally means receiving no match.

What happens to your paycheck?

Traditional SIMPLE IRA salary deductions generally reduce federal income-tax wages. They do not reduce Social Security or Medicare wages. Your actual take-home pay depends on withholding, other deductions, and your tax situation.

A \$50 contribution may cost less than \$50 in take-home pay

If a \$50 traditional contribution saves \$6 of federal income tax at a 12% marginal rate, its after-federal-tax cost is approximately \$44. You still pay applicable Social Security and Medicare tax. This is an illustration, not a promise about the exact change on a pay stub.

The account is a retirement savings arrangement, not a guaranteed investment return. Review the investments, fees, and risk level offered by your financial institution.

How much can you save—and when can you enroll?

2026 employee contribution limits

Age at year-end	Standard SIMPLE limit	Eligible higher-limit plan
Under 50	\$17,000	\$18,100
50–59 or 64 and older	\$21,000	\$21,950
60–63	\$22,250	\$23,350

Totals include applicable catch-up contributions. The standard age-50 catch-up is \$4,000; the corresponding higher-limit-plan catch-up is \$3,850. The special age-60–63 catch-up is \$5,250 in either column and replaces, rather than adds to, the usual age-50 catch-up. Contributions cannot exceed eligible compensation; confirm the limits available under your plan.

The higher limits generally apply to qualifying employers with 25 or fewer employees. Qualifying employers with 26–100 employees can elect them by providing a 4% match or a 3% nonelective contribution. Employee-count and other eligibility rules apply. Do not assume the higher column applies merely because your business is small.

Planning for 2027?

These are 2026 limits. Use the IRS limits for 2027 when making a 2027 election. Your employer's annual notice should identify the contribution arrangement and the limits that apply to your plan.

Employer money is separate from your limit

The employer contribution does not use up your employee salary-deferral limit. A common alternative to matching is a 2% nonelective contribution: eligible employees receive it even if they do not contribute. For 2026, the compensation ceiling for that formula is \$360,000. Special enhanced-plan and optional additional-contribution rules can change the arrangement.

Who is eligible?

The usual test covers employees who earned at least \$5,000 in any two prior calendar years and are expected to earn at least \$5,000 in the current year. The two earlier years need not be consecutive. An employer may adopt easier eligibility rules. Certain union employees and nonresident aliens may be excluded under the applicable rules; check the plan document.

Know the election window

For an ongoing calendar-year plan, the usual annual period to start or change salary deductions is November 2 through December 31 for the following year. The employer provides the required notice before that period begins. Newly eligible employees and new plans can have different election periods.

An earlier paperwork target can help get accounts ready, but it should not eliminate your full election period. You may stop salary deductions during the year; the plan may require you to wait until the next calendar year to restart. Ask whether your existing election continues automatically and when other changes are allowed.

Working two jobs?

Tell us about salary deferrals to every employer's retirement plan. Separate payroll departments do not necessarily know about one another, and combined contribution limits may apply.

Keep your savings working for you

What if I leave the company?

Your account stays yours, including employer contributions. You can generally leave it invested. Before moving it, check the two-year participation period and receiving account's rules.

Can I borrow from it or take money out?

SIMPLE IRAs do not offer participant loans. Taxable withdrawals generally create income tax. Before age 59½, an additional 10% tax usually applies unless an exception qualifies. During the first two years of participation, that additional tax generally rises to 25%. Owning the account does not make an early withdrawal tax-free.

When does the two-year clock start?

Generally, it starts when the first contribution is deposited under your employer's SIMPLE IRA plan—not merely when you sign the enrollment form. During that period, tax-free transfers generally must go to another SIMPLE IRA. Afterward, more rollover destinations may be available. Have us review a transfer or Roth conversion before it happens.

Is a Roth option available?

Federal law permits Roth SIMPLE IRA contributions, but your employer and financial institution must offer the feature. Roth contributions are included in current income; qualifying withdrawals can be tax-free. Ask which employee and employer Roth options your plan actually supports and how they will be reported.

Can I also have my own traditional or Roth IRA?

Often yes, under separate personal-IRA rules. Income and workplace coverage may affect eligibility or deductibility. Do not deduct salary deferrals again on your personal return.

Your enrollment checklist

- Read the annual notice and confirm eligibility, the employer contribution, and your election period.
- Choose a payroll contribution you can sustain; understand what is needed to receive the full match.
- Complete the salary-reduction agreement and account paperwork; keep a copy of each.
- Select investments and beneficiaries, and review account charges.
- Check pay stubs and account statements to confirm deductions and deposits.
- Tell us about other retirement plans, age-based catch-ups, or a proposed withdrawal or rollover.

A short note for business owners

Confirm employer eligibility, employee coverage, other-plan restrictions, and deposit deadlines. Match the annual notice and plan documents to payroll operations. This guide supplements the required documents; it does not replace them.

Lenny's Take

Start with an amount your budget can handle, understand the company contribution, and let the habit do its work. Retirement saving does not have to be dramatic—sometimes the best move is the one that quietly happens every payday.

Federal rules reviewed September 30, 2026. Sources: IRS SIMPLE IRA plan and employee FAQs ([irs.gov/retirement-plans](https://www.irs.gov/retirement-plans)); Notice 2025-67, 2026 limits ([irs.gov/pub/irs-drop/n-25-67.pdf](https://www.irs.gov/pub/irs-drop/n-25-67.pdf)); Notice 2024-2, enhanced limits and Roth provisions ([irs.gov/pub/irs-drop/n-24-02.pdf](https://www.irs.gov/pub/irs-drop/n-24-02.pdf)); IRS SIMPLE IRA withdrawal and transfer rules. General information only; your plan terms and individual circumstances determine the result.