UBS

Employer's guide to establishing a SIMPLE IRA plan

SIMPLE IRA—A retirement plan designed for small business owners

A convenient, cost-effective retirement plan

Are you interested in a retirement plan that can:

- Help reduce your income taxes
- Help you and your employees maximize tax-deferred growth
- Provide a valuable, low-cost benefit that is easy to maintain
- Offer you and your employees a wide variety of investment options

If so, you should consider the SIMPLE IRA.

The Savings Incentive Match Plan for Employees, better known as the SIMPLE IRA plan, is a type of retirement plan especially designed for small business owners. As its name implies, a SIMPLE IRA plan is easy to establish and maintain. Unlike other types of retirement plans, such as a 401(k), the SIMPLE IRA requires little administrative work, making it efficient and affordable. More importantly, it provides an incentive for you and your employees to save for retirement through pretax salary deferrals which can help reduce current tax bills. You and your employees will enjoy tax-deferred growth on contributions. This brochure provides information about the SIMPLE IRA and addresses commonly asked questions on this topic.

What is a SIMPLE IRA plan?

A SIMPLE IRA plan is a retirement plan for employers with 100 or fewer employees who make in excess of $5,000 that do not currently maintain a retirement plan. The plan allows employees, including owner-employees, to make pretax salary deferral contributions and requires employers to make certain additional contributions. Unlike other salary deferral programs, such as 401(k) plans, SIMPLE plans are not subject to nondiscrimination testing or top-heavy rules. In addition, they require limited ERISA reporting.

With a SIMPLE IRA plan, all plan participants can set aside up to $14,000 in salary deferrals in 2022 (indexed periodically for inflation). In addition, employees who are age 50 or older can contribute an additional $3,000 annually as a "catch-up" contribution. The employer must make an annual contribution to each eligible employee's SIMPLE IRA based on one of two contribution formulas. (For detailed information on employer contributions, see page 5.)

A SIMPLE IRA should not be confused with a traditional IRA or a Roth IRA. A SIMPLE IRA can only be set up in connection with an employer-sponsored SIMPLE IRA plan. Individuals with a SIMPLE IRA may also be able to maintain a traditional IRA and/or a Roth IRA, provided they meet certain criteria.

Your Financial Advisor can provide you with more information on traditional and Roth IRAs.

The UBS Financial Services Inc. IRS approved SIMPLE IRA prototype plan

We provide, at no additional cost to you, standard SIMPLE IRA plan documents for which we received IRS approval. A plan document is necessary for you to establish a SIMPLE IRA plan. Your Financial Advisor can provide you with the documents and easy instructions on how to establish a UBS Financial Services Inc. SIMPLE IRA plan. You as the employer (and not UBS) are responsible for keeping the document and making sure it is maintained.

Key features of a SIMPLE IRA plan

Pretax employee contributions—Employee salary deferral contributions (including those made by owner-employees to their own accounts) are made on a pretax basis, thereby reducing the employee's taxable income. Your business will also receive a tax deduction for contributions that it makes on behalf of employees.

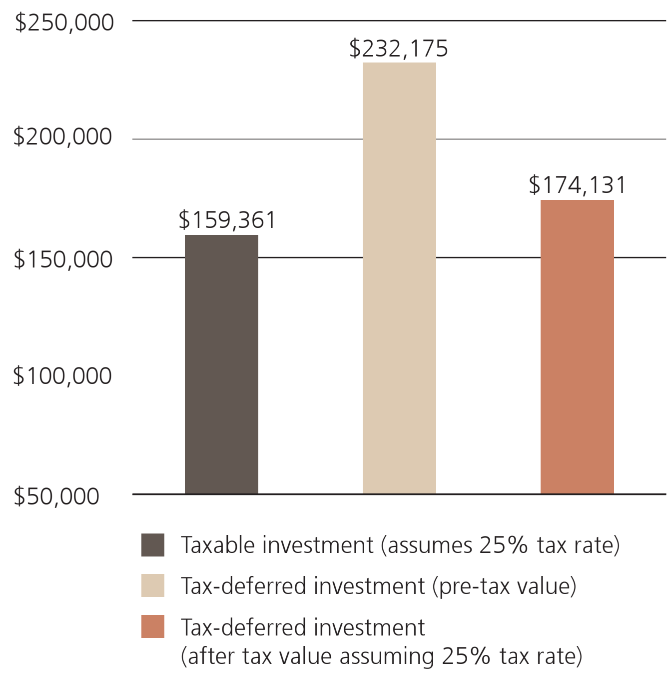
Tax-deferred earnings—All interest, dividends and capital appreciation on your investments will grow on a tax-deferred basis.[1] When assets grow tax-deferred, there is more to invest so they grow much faster than if they were subject to taxes every year.

For example, assume $500 is contributed monthly to a SIMPLE IRA for 20 years and those contributions earn a hypothetical return of 6%.

After 20 years, the account would grow to more than $230,000. When it comes time to withdraw money from the account, distributions will be subject to ordinary income tax (see illustration below).[2] Even after paying taxes on the SIMPLE IRA withdrawals, you would still have almost $15,000 more than if you had invested outside of the SIMPLE IRA as a result of the tax deferred growth the SIMPLE IRA provides.

The power of tax-deferred growth[3]

Assumes a $500 monthly contribution that earns a 6% rate of return.



[1] Although your account grows on a tax-deferred basis, in limited circumstances the underlying investments (generally restricted to certain limited partnerships and alternative investments) may generate unrelated business taxable income ("UBTI"). The IRA may owe tax on UBTI if the amount of the UBTI exceeds $1,000.
[2] Withdrawals taken prior to age 59½ may be subject to an additional tax on early distributions.
[3] This illustration is hypothetical and is not intended to represent the performance of any specific investment. Distributions from tax-deferred retirement accounts are subject to income taxes and a possible 10% early distribution penalty (25% on early distributions from SIMPLE IRAs for withdrawals within two years of the first contribution to the SIMPLE IRA account). Taking these items into consideration will decrease the value shown in the chart.

No nondiscrimination tests or top-heavy rules—Unlike other types of retirement plans, such as 401(k) plans, SIMPLE IRAs are not subject to special nondiscrimination testing (known as ADP and ACP tests). This can limit the amount that highly compensated employees can contribute. This is an advantage for owners of small businesses who are looking to defer the maximum allowable amount—up to $14,000 in 2022 ($17,000 if age 50 or older), as indexed, for each eligible employee—in order to reduce their taxable income. Also, since these tests are not required, the employer is not subject to the administrative costs associated with them.

Low administrative costs—The only administrative fees associated with the SIMPLE IRA at UBS is the annual fee charged for the maintenance of each participant's SIMPLE IRA account. These fees can be paid by either the employee or the employer. Costs through your business' accountant for the administration of the SIMPLE IRA are generally lower than the administrative costs of a 401(k).

Reduced fiduciary responsibility—Since participants select their own investments, the employer should be relieved of any responsibility for potential investment losses.

Incentive for employees to stay with your company—Attracting and retaining quality employees can contribute to the long-term success of your business. Employees consider retirement plans to be an important benefit.

How a SIMPLE IRA works

Employee contributions

– Eligible employees set up their own SIMPLE IRA into which they can elect to make pretax salary deferral contributions. An employee's taxable income for the year is reduced by the amount of his or her contribution and all earnings within the account grow tax-deferred. The maximum annual salary deferral contribution for each participant is 100% of compensation up to $14,000 in 2022 ($17,000 if age 50 or older), indexed periodically for inflation.

Required employer contributions

– Each year, the employer is required to make a contribution to each eligible employee's SIMPLE IRA. When making a contribution, the employer must satisfy one of two contribution formulas:
  1. Under a matching formula, the employer is required to "match" the deferrals dollar-for-dollar, up to 3% of compensation. (Employers have the ability to lower the match in two of every five years, but to no less than 1%). **or**

  2. Under the alternative formula, the employer can make a 2% nonelective contribution for all eligible employees, regardless of whether or not they make a salary deferral contribution. (The amount of compensation used to calculate this nonelective contribution is limited to $305,000 in 2022, indexed periodically for inflation).

There are no vesting schedules with SIMPLE IRAs, so 100% of all contributions are immediately vested.

How a SIMPLE IRA plan could benefit you and your employees

Let's assume that John, the owner of a small business, earns $310,000 a year. He plans to make the maximum salary deferral ($14,000) into his own SIMPLE IRA. Before he begins, he needs to decide which employer contribution formula to use—either the 3% matching or the 2% non-elective contribution formula.

Taking it a step further, assume the business has five other employees, four of whom will choose to defer a percentage of their salary into a SIMPLE IRA. Refer to the charts below and compare the contributions to be made under each formula.

With a 3% matching contribution

	Salary	Salary deferral	3% match	Total contribution
John, the owner	$310,000	$14,000	$9,300	$23,300
Employee 1	30,000	10,000	900	10,900
Employee 2	30,000	3,000	900	3,900
Employee 3	30,000	0	0	0
Employee 4	5,600	5,600	168	5,768
Employee 5	7,000	7,000	210	7,210
Total	**$412,600**	**$39,600**	**$11,478**	**$51,078**

In this example, using the 3% matching formula, John would contribute a total of $23,300 to his own account ($14,000 in salary deferrals plus $9,300 in matching contributions). John would also contribute $2,178 in matching contributions for the eligible employees. Note that Employee 3 was not eligible for a matching contribution since he did not make any salary deferral contributions.

With a 2% non-elective contribution

	Salary	Salary deferral	2% non-elective contribution	Total contribution
John, the owner	$310,000[4]	$14,000	$6,100[4]	$20,100
Employee 1	30,000	10,000	600	10,600
Employee 2	30,000	3,000	600	3,600
Employee 3	30,000	0	600	600
Employee 4	5,600	5,600	112	5,712
Employee 5	7,000	7,000	140	7,140
Total	**$412,600**	**$39,600**	**$8,152**	**$47,752**

Alternatively, if John used the 2% non-elective contribution formula, he would contribute a total of $20,100 to his own account ($14,000 in salary deferrals plus $6,100 in non-elective contributions). John would also contribute $2,052 in non-elective contributions for the eligible employees. Note that under this formula, it does not matter whether or not employees made salary deferral contributions. Therefore, Employee 3 would receive a 2% non-elective contribution even though he did not make any salary deferral contributions.

Regardless of which contribution formula John chooses for his plan, the total amount of his contributions (to his own account as well as to his employees' accounts) is fully tax deductible.

[4] The amount of compensation used to calculate this non-elective contribution is limited to $305,000 as indexed for inflation (i.e., 2% of $305,000 equals $6,100).

SIMPLE IRA versus a 401(k) plan: plan comparison chart

SIMPLE plans and 401(k) plans are generally the only types of retirement plans for small businesses that allow participants to make pretax salary deferral contributions.

The following chart helps you determine whether a SIMPLE IRA or a 401(k) plan is the best salary deferral retirement plan for you and your business.

	SIMPLE IRA	**401(k) Plan**
Tax benefits	Contributions are pretax Earnings grow tax deferred	Same Same
Establishment deadline	Between January and October 1 of each year, provided that employer did not previously contribute to another plan for the same year.	By the tax filing deadline plus extensions for the employer's fiscal year.
Employer contribution deadline	Employer's tax filing date plus valid extensions.	Same
Maximum employee pretax savings	100% of compensation up to $14,000 ($17,000 if age 50 or older) annually (indexed periodically for inflation) per participant.	100% of compensation up to $20,500 ($27,000 if age 50 or older) (indexed periodically for inflation) per participant.
Employer contributions required	Yes Dollar-for-dollar match up to 3% of compensation (may reduce the match to no less than 1% in two out of five years); in lieu of employer match, non-elective contribution of 2% of compensation.	Generally no, but depends on plan design.
Vesting of employer contributions	100% immediately; no vesting schedules.	Vesting schedules allowed for employer contributions only.
Employee eligibility requirements	Two years of service with earnings of at least $5,000 in each year and compensation of at least $5,000 expected for the current year; can choose to be less restrictive.	Generally, one year of service at 1,000 hours a year and 21 years of age; can choose to be less restrictive.
Administration		
Nondiscrimination (ADP/ACP) testing	Not required	Must be performed (unless safe harbor provisions are elected) to ensure that the plan does not unfairly benefit highly compensated employees more than non-highly compensated employees.
Top-heavy plan requirements	None	If 60% or more of the plan assets are allocated to key employees (e.g., owners, officers, etc.), a 3% minimum contribution must be made to non-key employees (unless safe harbor provisions are elected).
Reporting by employer		
To eligible employees	Summary Description and Annual Statement of Employer Contributions.	Summary Plan Description and Summary Annual Reports.
To Department of Labor	None	Form 5500 Series; Summary Plan Description, upon request.
Plan distributions	Distributions that are subject to ordinary income taxes may be taken at any time. A 10% tax penalty may apply to distributions taken prior to age 59½. Distributions may be transferred directly into an IRA or rolled over into another plan after two years of participation in a SIMPLE IRA. (Note: distributions taken within first two years of participation may be subject to a 25% tax penalty.)	Distributions usually are permitted upon termination of employment. Other distributions may be allowed based on plan design. A 10% tax penalty may apply to distributions taken prior to age 59½. Distributions may be eligible for special tax treatment. Distributions may be rolled over to an IRA or another plan.

Potential advantages of the SIMPLE IRA

- Employees, including owners, receive significant tax benefits: pretax contributions and tax-deferred compounding of earnings
- Businesses can be more competitive by offering employees a valued employee benefit: the incentive to save for retirement through pretax salary deferrals
- Employer contributions are fully tax deductible, allowing employers to reduce their current tax bill
- Minimal administrative costs make the plan cost-effective
- Nondiscrimination tests are not required, so contributions of highly compensated owner/employees are not restricted by the amounts contributed by non-highly compensated employees
- Employees select their own investments, reducing the employer's fiduciary responsibilities
- While employer contributions are required, employers have the flexibility to choose from one of two formulas: a dollar-for-dollar match or a non-elective contribution formula

Potential disadvantages of the SIMPLE IRA

- Annual employer contributions are required
- Employer contributions are immediately vested
- No additional contributions are allowed beyond employee salary deferrals and required employer contributions
- Employees who earn at least $5,000 in any two prior years and are expected to earn $5,000 in the current year are eligible to participate in the plan
- Loans are not available

Key reasons to consider a SIMPLE IRA versus a 401(k) plan

- The cost to administer a SIMPLE IRA is lower than a 401(k): 401(k)s generally require nondiscrimination testing, Form 5500 filings, top-heavy testing, vesting and forfeiture accounting
- Employees select their own investments, reducing the employer's fiduciary responsibilities
- A SIMPLE IRA plan is easy to establish and maintain, making it suited to small business owners

Of course, depending on your particular needs, a 401(k) plan may be better suited for your business. Talk to your Financial Advisor about 401(k) programs available at our firm.

The benefit of not having to perform nondiscrimination tests

SIMPLE IRAs offer many of the same features as a 401(k) plan without the need to perform nondiscrimination tests. With the SIMPLE IRA, all employees, including highly compensated employees (owner/employees), are allowed to make salary deferral contributions of up to $14,000 ($17,000 if age 50 or older), as indexed.

The following example illustrates how the nondiscrimination test can limit the salary deferral made by a highly compensated employee. (Refer to chart on page 9.)

Assume Pat, an owner/employee, earns $100,000 and is considered a highly compensated employee. As a highly compensated employee, the amount Pat can defer to the plan is contingent upon the amount contributed, on average, by the other employees in her company (all of whom are non-highly compensated employees). In a 401(k) plan, on average, highly compensated employees can contribute up to 2% more than the average of non-highly compensated employees. Since the non-highly compensated employees in the 401(k) plan at Pat's company have an average deferral rate of 3.2%, Pat's contribution to the plan would be limited to $5,200 (i.e., 5.2% of her compensation).

With a SIMPLE IRA, she could defer up to $14,000 annually without being concerned with nondiscrimination testing. With the SIMPLE plan, Pat would be able to contribute $8,800 more than she could to a 401(k) plan. To set aside the same amount to her company's 401(k) plan and pass nondiscrimination testing requirements, Pat's eligible employees would have to defer at least 12.0% of their income to the plan on average. (This figure is known as the average deferral rate.)

Employee contributions to Pat's company 401(k) plan

Assume	Deferral rate
Employee 1 (owner) (*a highly compensated employee who earns $100,000*)	5.2%
Employee 2	6.0%
Employee 3	6.0%
Employee 4	0%
Employee 5	0%
Employee 6	4.0%
Average deferral rate of non-highly compensated employees (i.e., employees 2 – 6)	3.2%

The advantages of the UBS Financial Services Inc. SIMPLE IRA

With our SIMPLE IRA, you can enjoy all of the advantages of the SIMPLE IRA plan plus the personalized service of your Financial Advisor. You will also enjoy the following benefits:

Professional experience—A relationship with our firm brings with it the added value and service that only a professional Financial Advisor can provide. Supported by the firm's resources, your Financial Advisor can:

- Provide assistance in establishing the plan
- Work with you and your employees to define financial goals, time frames and risk tolerance
- Help guide you in monitoring your account performance and helping you adjust allocations as needed

Easy to establish and maintain—Our prototype plan makes adopting the UBS Financial Services Inc. SIMPLE IRA plan easy. Using a prototype plan eliminates the expense of designing and updating a plan within the guidelines of the Internal Revenue Code. Once established, each participant sets up an IRA into which employee salary deferrals and required employer contributions are made. There are no special recordkeeping or government filing requirements.

Affordable—Generally, an employer has low administrative cost when establishing a SIMPLE IRA. Each employee must establish his or her own SIMPLE IRA which is subject to an annual custodial maintenance fee. Of course, the employer does have the option of paying the employee's SIMPLE IRA annual custodial maintenance fee. Typically the only other costs involved are for the business' accountant to determine employee eligibility and employer contribution amounts.

Wide selection of investment choices—You and your employees can choose from a broad selection of investments with the UBS Financial Services Inc. SIMPLE IRA. In fact, all participants in a SIMPLE IRA plan have the freedom and flexibility to manage their SIMPLE IRA assets as they would any portfolio. SIMPLE IRA assets can be invested in a wide range of investments, including, but not limited to, stocks, bonds and mutual funds.

Answers to commonly asked questions about SIMPLE IRAs

Q. *What happens to my SIMPLE IRA plan if I am no longer eligible to have one?*

A. Once an employer has more than 100 employees earning at least $5,000, the employer is no longer eligible to maintain a SIMPLE IRA plan. Employers, however, are given a two-year grace period to continue maintaining a SIMPLE IRA plan. After that, you would have to cease contributions to the plan. There are a number of other retirement plan solutions for growing businesses, including potentially transferring accounts to a new retirement plan.

Q. *If I currently offer another type of retirement plan, can I switch to a SIMPLE IRA plan?*

A. Yes, but you would not be permitted to contribute to two different plans in the same calendar year. You may wait until year-end to cease contributions to the existing plan and establish a SIMPLE IRA which would be effective on January 1 of the following year. You should discuss with your tax advisor any decision to change your existing retirement plan.

Q. *If I have a SIMPLE IRA plan, can I reduce the amount that I contribute on behalf of my employees?*

A. Yes. Each year, employers can switch between using the matching contribution (of up to 3% of compensation) formula and the 2% non-elective contribution formula. By simply notifying plan participants, employers have the ability to reduce the matching contribution to as low as 1% in two of every five years. When changing the contribution formula, employers are required to notify employees of the change no later than 60 days prior to when the employee first becomes eligible to participate in the plan and before each subsequent year.

Q. *When can employees elect to participate in a SIMPLE IRA plan?*

A. For each calendar year, an employee may make or modify a salary deferral election during the 60-day period immediately preceding January 1 of that calendar year. However, for the calendar year in which the employee becomes eligible to participate, the period during which the employee may make his or her initial election is the 60-day period that includes either the date the employee becomes eligible or the day before. Elections made during the 60-day period will become effective either as of January 1 or the date the employee becomes eligible. (Note: UBS Financial Services Inc.'s. SIMPLE IRA plan prototype document gives the employer the flexibility to allow employees to change their contribution election more frequently than during the initial 60-day election period, e.g., daily, monthly or quarterly).

Q. *Are employers required to deposit the employees' salary deferrals within a certain period of time?*

A. Yes. Most SIMPLE IRA plans are subject to Title I of ERISA and, as such, are subject to the rule that contributions must be deposited as of the earliest date on which they can be reasonably segregated from the employer's assets.

Q. *What are the tax consequences on distributions from a SIMPLE IRA?*

A. Generally, the same tax consequences apply to SIMPLE IRAs as to distributions from traditional IRAs and other types of retirement plans. When withdrawn, SIMPLE IRA assets are taxed as ordinary income. In addition, individuals under age 59½ who take a distribution from a SIMPLE IRA will be subject to an additional 10% early distribution tax penalty (unless certain exceptions apply—as described below). Furthermore, for individuals under age 59½ who withdraw money from their SIMPLE IRA within the first two years of participating in the plan, the 10% tax penalty is increased to 25% of the amount of the withdrawal.

Exceptions from the 10% early distribution penalty include, but are not limited to:

- Attainment of age 59½
- Disability
- Death
- Substantially equal payments over your life expectancy (or the joint life expectancies of you and your beneficiary)
- Assets rolled over from one SIMPLE IRA to another SIMPLE IRA
- Assets rolled over from a SIMPLE IRA to a traditional IRA after two years from the date the employee first participated in the SIMPLE IRA
- To pay for certain medical expenses in excess of 7.5% of Adjusted Gross Income (AGI)
- Qualified higher education expenses
- First-time purchase of a home ($10,000 lifetime limit)
- Purchase of medical insurance after 12 weeks of unemployment
- Qualified birth or adoption distributions (up to $5,000)

Q. *Can assets from another type of retirement account (e.g., SEP, traditional IRA, 401(k), profit sharing or 403(b) plan) be rolled over into a SIMPLE IRA?*

A. Yes. Assets can be rolled from traditional and SEP IRAs as well as from qualified plans, such as a 401(k), into a SIMPLE IRA subject to the following restrictions: (1) rollovers cannot be accepted from Roth IRAs, (2) rollovers are only allowed after the two-year period beginning on the date the participant first participated in their employer's SIMPLE IRA plan and (3) the one-per-year limitation that applies to IRA-to-IRA rollovers applies to rollovers from a traditional or SEP IRA into a SIMPLE IRA.

Q. *Can distributions from a SIMPLE IRA be rolled over tax-free to a traditional IRA?*

A. Yes. But employees must wait two years from the date of the first contribution to their account before becoming eligible to initiate a tax-free rollover or transfer to a traditional IRA. (Note, however, that an employee may take a distribution from a SIMPLE IRA and directly roll it over or transfer it tax-free to another SIMPLE IRA during this two-year period—and any other time, for that matter.) As with traditional IRAs, tax-free rollovers must be completed within 60 calendar days and are limited to the one-per-year limitation that applies to all IRA-to-IRA rollovers.

Call your Financial Advisor today

We understand that you need to plan and invest carefully to provide sufficient income for yourself and your employees at a reasonable cost to your business. You also know that an effective retirement plan can help you retain valuable employees and serve as another form of compensation.

Let us help put you and your employees on the road to seeking a secure retirement. Call your Financial Advisor today.

Purpose of this document
This is marketing material intended to help you understand services and investments we offer. It should be used solely for the purposes of discussion with your UBS Financial Advisor and your independent consideration. UBS does not intend this to be fiduciary or best interest investment advice or a recommendation that you take a particular course of action.

Personalized recommendations or advice
If you would like more details about any of the information provided, or personalized recommendations or advice, please contact your UBS Financial Advisor.

Important information about brokerage and advisory services
As a firm providing wealth management services to clients, UBS Financial Services Inc. offers investment advisory services in its capacity as an SEC-registered investment adviser and brokerage services in its capacity as an SEC-registered broker-dealer. Investment advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate arrangements. It is important that you understand the ways in which we conduct business, and that you carefully read the agreements and disclosures that we provide to you about the products or services we offer. For more information, please review client relationship summary provided at **ubs.com/relationshipsummary**, or ask your UBS Financial Advisor for a copy.

Conflicts of interest
UBS Financial Services Inc. is in the business of establishing and maintaining investment accounts (including retirement accounts) and we will receive compensation from you in connection with investments that you make, as well as additional compensation from third parties whose investments we distribute. This presents a conflict of interest when we recommend that you move your assets to UBS from another financial institution or employer retirement plan, and also when we make investment recommendations for assets you hold at, or purchase through, UBS. For more information on how we are compensated by clients and third parties, conflicts of interest and investments available at UBS please refer to the 'Your relationship with UBS' booklet provided at **ubs.com/relationshipwithubs**, or ask your UBS Financial Advisor for a copy.

Important additional information applicable to retirement plan assets (including assets eligible for potential rollover, distribution or conversion)
This information is provided for educational and discussion purposes only and are not intended to be fiduciary or best interest investment advice or a recommendation that you take a particular course of action (including to roll out, distribute or transfer retirement plan assets to UBS). UBS does not intend (or agree) to act in a fiduciary capacity under ERISA or the Code when providing this educational information. Moreover, a UBS recommendation as to the advisability of rolling assets out of a retirement plan is only valid when made in a written UBS Rollover Recommendation Letter to you provided by your UBS Financial Advisor.

With respect to plan assets eligible to be rolled over or distributed, you should review the IRA Rollover Guide UBS provides at **ubs.com/irainformation** which outlines the many factors you should consider (including the management of fees and costs of your retirement plan investments) before making a decision to roll out of a retirement plan. Your UBS Financial Advisor will provide a copy upon request.

No tax or legal advice
UBS Financial Services Inc., its affiliates and its employees do not provide tax or legal advice. You should consult with your personal tax and/or legal advisors regarding your particular situation.

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