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 two years of enrolling in a SIMPLE IRA.
- **Additional taxes and penalties** – Ordinary federal income tax, state and local taxes and additional penalties may apply.

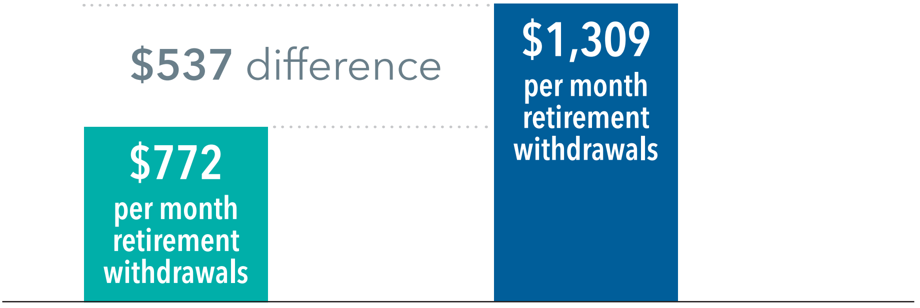
There are exemptions to the early withdrawal penalties for qualifying situations. Please consult your tax advisor for information.

Avoiding early withdrawals could mean more money over the long term

Let's look at two similar SIMPLE IRA plan participants: Ed and Eva.
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. 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 20 years of saving, Ava would be able to withdraw $537 more per month than Ed at retirement. In addition, Ed would have paid the IRS a total of **$2,458 in early withdrawal penalties** by year 20.*

* The early distribution penalty is 25% for the first two years of participating in a SIMPLE IRA plan and 10% thereafter if participant is under age 59½. This example also assumes that the early withdrawal penalty applies during the full 20 years and is not taken out of the account.

This hypothetical example assumes: $30,000 starting salaries; 2% annual salary increases; $50 employee contributions every two weeks; and that employer contributions, which are matched dollar for dollar up to 3% of salary, are invested once per year. 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.

* Penalty is based on a $1,000 lump-sum cash withdrawal 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 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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- Since 1931, we've invested with a long-term focus and attention to risk.
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For more information, visit us at **capitalgroup.com/retire**.

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

† As of December 31, 2022.

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 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 for withdrawals taken before age 59½. Regular investing does not ensure a profit or protect against loss in a declining market.

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