

Offering A SIMPLE IRA

Developing your future

As an employer, you know the importance of strategic planning. You may spend months working on a business plan for your company's growth. Have you spent the same time planning for your own future? Do your employees have the opportunity to plan for theirs?

A SIMPLE IRA from one of the member companies of Great American Insurance Group® (Annuity Investors Life Insurance Company® and Great American Life Insurance Company®) can make all the difference as you look toward your future.

Why offer a SIMPLE IRA?

Quality employees can be the biggest asset for your organization's long-term profitability. As more people understand the importance of planning for their retirement, employees are looking for companies that will help them invest in their future. Do you have a plan that makes your company attractive to the best and the brightest?

The Savings Incentive Match Plan for Employees (SIMPLE IRA) is an economical way to sponsor a retirement plan. Employees can defer a portion of their salary on a pre-tax basis, and you, as the employer, are required to make certain contributions on their behalf. The plan is not subject to many of the complex rules and costly administration fees that apply to other retirement plans.

Many small businesses and their employees may benefit from the advantages of a SIMPLE IRA. However, your business does need to meet the following requirements:

- No more than 100 employees who earned \$5,000 or more in the preceding calendar year.
- Generally, you cannot have any other employer-sponsored retirement plans.

For the purpose of applying these restrictions, all businesses under an owner's common control are considered a single employer. If you establish and maintain a SIMPLE IRA for at least a year and then do not meet the requirements, the plan doesn't stop immediately. You can continue the plan for two years after your last year of eligibility. That grace period is reduced to one year if the ineligibility is the result of an acquisition, disposition or similar occurrence.

A SIMPLE IRA benefits more than just your employees...

It benefits your business.

- Help reward and retain loyal employees while attracting new, well-qualified ones.
- Maintain a positive work environment and enhance your reputation as a progressive, caring organization, with little cost to you.
- Provides a tax deduction for you and has lower administrative expenses than other plans.
- May help you save money by letting employees share in the cost of their retirement program.
- It's easy to administer—no filing, testing or complex reporting requirements.

It benefits you in your goal to prepare for your own retirement.

- You will have a high-quality plan to invest in your own future through pre-tax contributions that can grow over time.
- You have the ability to choose from a wide variety of investment options to fit your goals.

How does a SIMPLE IRA work?

Contributions

You and your employees can contribute money on a pre-tax basis. This means you can afford to contribute more than if you put money aside after taxes were deducted. And, unlike a taxable investment, earnings on the account are tax free until the money is withdrawn. Then both contributions and earnings will be treated as taxable income.

A pre-tax contribution of up to \$13,500 may be made in 2020. For those 50 and older, a catch-up contribution of \$3,000 may also be made. Limits may increase in future years.

During the 60-day period before the beginning of each calendar year, employees have the opportunity to elect or change the percentage of their pay they want to contribute. Additionally, an employee can terminate his or her participation at any time.

Company match

With a SIMPLE IRA, federal law requires you to make contributions to employees' accounts every year in one of two ways.

- **3% Matching contribution:** You must generally match each employee's contributions dollar-for-dollar, up to 3% of that employee's total compensation. For example, John, who earns \$20,000 a year, contributes \$800 (4%) to his SIMPLE IRA. You would contribute an additional \$600, which is 100% of his contributions up to 3% of his compensation.

You may reduce the matching contribution to no less than 1% in any two out of five years, ending with the current year.

- **2% of Compensation contribution:** You would contribute 2% to all eligible employees who have earned at least \$5,000 for the year regardless of whether or not they are contributing any of their own money.

You may deduct the full amount of contributions made to a SIMPLE IRA to help reduce current business tax liability.

Employee access to money

Employees are 100% vested in all contributions to their IRAs. That includes both the employee deferral and the employer-matching contributions. This means that employees are immediately entitled to all funds in their SIMPLE IRA.

However, if an employee chooses to take a distribution before age 59½, the employee will pay ordinary income tax and generally a 10% federal penalty tax. That penalty is increased to 25% if funds are withdrawn during the first two years of participation in the plan.

Tax benefits of a SIMPLE IRA

See the difference that tax deferral can make for you, your employees and your business. In the hypothetical example on the following page, the yearly tax-deductible \$12,000 SIMPLE IRA contribution plus the 3% employer match earning 3% over 20 years would grow to \$415,147. In the same 20 years, the net savings of annual employee contributions would total \$23,800 (\$1,190 x 20 years).*

Owner/employee	Compensation	Employee deferral	Employer 3% match	Total contribution
Owner	\$100,000	\$12,000	\$3,000	\$15,000
Employee A	\$45,000	\$1,800	\$1,350	\$3,150
Employee B	\$35,000	\$1,400	\$1,050	\$2,450
Employee C	\$25,000	\$1,250	\$750	\$2,000
Employee D	\$20,000	\$850	\$600	\$1,450
Employee E	\$18,000	\$700	\$540	\$1,240
Employee F	\$18,000	\$0	\$0	\$0
Total Match Amount				\$7,290
Contribution to owner (\$3,000 ÷ \$7,290)				41%
Contribution to employees (\$4,290 ÷ \$7,290)				59%
Tax savings on matching contributions - Assumes 21% rate for business (\$7,290 x 21%)				\$(1,531)
Tax savings on owner's deferral - Assumes 28% rate for owner (Difference between paying 22% on \$100,000 vs. 22% on \$88,000)				\$(2,640)
Net owner's cost (Total match amount minus the tax savings from matching contributions and owner's deferral)				\$3,119
Owner's matching contribution amount				\$(3,000)
Net cost (net savings) of contributions to employees after tax savings & owner's contribution				\$119

The hypothetical example and estimate of an average total return figure of 3% are for illustration purposes only and are not intended to represent the performance of any particular product or SIMPLE IRA, as performance may vary substantially. This example does not reflect any contract, M&E, administration, annual contract, sales or other charges that would have lowered performance if included.

For a net cost of \$119 after annual tax savings, a SIMPLE IRA could help save \$15,000 a year in an account and contribute to employees' retirement accounts.



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Note that qualified plans provide tax deferral and that using an annuity to fund a qualified plan provides no additional tax deferral. While a variable annuity has additional charges, it offers additional benefits. These benefits include a lifetime income and a guaranteed death benefit.

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