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Mid-Year SIMPLE-to-Safe Harbor 401(k) Conversions

New year, new opportunities. Just as annual limit increases prompt plan checkups and fresh strategy conversations, SECURE 2.0's mid-year SIMPLE IRA "off-ramp" gives advisors a timely way to help growing employers pivot into a more robust retirement plan without waiting for the next calendar year. Thanks to SECURE 2.0, employers can now replace a SIMPLE IRA mid-year with a safe harbor 401(k).

Historically, the SIMPLE IRA one-plan requirement generally meant an employer couldn't maintain a SIMPLE IRA for a calendar year if contributions were made, or benefits were accrued under another plan in that same year. As an exception to this rule, SECURE 2.0 allows a SIMPLE IRA to be terminated and replaced with a safe harbor 401(k) mid-year.

For the right client, this change can unlock higher elective deferral capacity and broader plan design options.

How It Works:

Terminate the SIMPLE IRA.

- The employer must notify employees at least 30 days before the termination date. The notice must explain that no salary reduction contributions will be made for compensation paid after the termination date, and that the employer will still make the required match/nonelective contribution based on compensation and deferrals through the termination date.
- The employer must take formal written action (e.g., adopting resolutions) to terminate the SIMPLE arrangement. The formal written action should specify the termination date.
- Coordinate with payroll and the financial institution to ensure contributions stop on time.

Provide a safe harbor notice (if your plan design requires one). The notice must describe the transition-year deferral limit, discussed below, and should generally be provided 30-90 days in advance of the safe harbor 401(k) plan's effective date.

Adopt a safe harbor 401(k). The SECURE 2.0 exception to the SIMPLE IRA one-plan rule only works if the new 401(k) plan is a safe harbor plan.

Ensure the transition year elective deferral limit is applied. In the year of the switch, participants do not get the benefit of the maximum SIMPLE deferral limit and the maximum 401(k) limit. Instead, Notice 2024-02 provides a weighted-average limit for total deferrals across the terminated SIMPLE and the replacement safe harbor 401(k), based on how many days each plan was in effect during the transition year, reduced by SIMPLE deferrals already made. This means an employee who deferred aggressively early in the year under the SIMPLE may have less remaining room under the 401(k) for the rest of that year.

Reminders:

- February 2, 2026: 2025 Forms 1099-R generally must be furnished to recipients by January 31. Because January 31, 2026, falls on a Saturday, Forms 1099-R will be treated as timely if furnished by February 2, 2026.
- March 15, 2026: For calendar-year 401(k) plans that failed 2025 ADP/ACP testing, the plan generally must distribute/recharacterize excess contributions by March 15, 2026, to avoid a 10% excise tax (a later deadline applies to certain EACAs).
- April 1, 2026: First RMD deadline for individuals whose first RMD year was 2025 (generally those who turned 73 in 2025), subject to the still-working exception for certain employer plans and excluding Roth employer accounts.

by Jesse St. Cyr, Partner, Poyner Spruill