

SIMPLE IRA TO 401(K) CONVERSION: DALLAS-FORT WORTH OWNER'S GUIDE

The SECURE 2.0 rule that ended the calendar-year-only limit, the notice deadlines that still matter, and when to stay put.

Palmer Wealth Group™

September 1, 2026

A Fort Worth business owner opens her routine plan review and notices something new. Her SIMPLE IRA fit at 45 employees, but now caps her deferrals nearly \$8,000 below what a 401(k) would allow, and headcount is edging toward the 100-employee ceiling that would force a change anyway.

At Palmer Wealth Group™, we work with Dallas-Fort Worth business owners who set up a SIMPLE early, grew past it, and now face a decision on a defined calendar. The choice is not just “SIMPLE or 401(k).” It is which of two conversion paths fits the business, what the notices require, and how to design the new plan. This guide walks the SIMPLE IRA to 401(k) conversion for Dallas-Fort Worth owners along the calendar that determines when each path is available.

SIGNS YOUR DALLAS-FORT WORTH BUSINESS HAS OUTGROWN THE SIMPLE IRA

Texas is the country's second-largest small-business state. The SBA's Texas 2025 Small Business Profile reports 3.5 million small businesses employing 5.1 million people, with 148,641 net new small-business jobs added in the year ending March 2024 (SBA Office of Advocacy). Nationally, the SBA counted 36.2 million small businesses as of mid-2026. Many growing DFW companies started with a SIMPLE IRA and are now approaching its structural limits.

THE 100-EMPLOYEE CEILING AND THE 2-YEAR GRACE PERIOD

The SIMPLE IRA (a Savings Incentive Match Plan for Employees) is designed for employers with 100 or fewer employees who earned \$5,000 or more in the prior year (IRC §408(p)). When a business crosses that threshold, the statute grants a runway: under §408(p)(2)(C)(i), an employer that had 100 or fewer qualifying employees is treated as satisfying the limit for the two calendar years following the last year it did (IRS “SIMPLE IRA Plan Fix-It Guide”). Growth from an acquisition or disposition triggers a different rule. The grace period gives owners time to plan the switch, not to postpone it indefinitely.

“THE GRACE PERIOD GIVES OWNERS TIME TO PLAN THE SWITH,
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WHEN OWNER-EMPLOYEES HIT THE SIMPLE DEFERRAL LIMITS

The 2026 contribution limits set the SIMPLE IRA elective employee deferrals (the maximum an employee can contribute from salary) at \$17,000, or \$18,100 for “applicable” plans under SECURE 2.0 §117 (IRS Notice 2025-67; IR-2025-111). The 2026 401(k) elective deferral limit is \$24,500. For an owner-employee age 50, the SIMPLE catch-up adds \$4,000; the 401(k) catch-up adds \$8,000, with an \$11,250 super catch-up for ages 60 through 63 under SECURE 2.0 §109. When owner deferrals are the reason for the plan, the gap between \$21,000 and \$32,500 becomes the operating question.

WHAT SIMPLE PLANS HANDLE WELL, AND WHERE THEY FALL SHORT

SIMPLE IRAs earn their name in one respect: employers file no Form 5500 for a SIMPLE, and the plan avoids nondiscrimination testing (DOL and IRS joint publication, “SIMPLE IRA Plans for Small Businesses”). For a business with modest owner deferrals, that works. What SIMPLE plans do not handle well is scale: higher owner deferrals, vesting schedules, discretionary matching, or profit-sharing flexibility. For a broader comparison of the SIMPLE, 401(k), and 403(b) options, our [Church Retirement Plans 403\(b\), SIMPLE IRA and 401\(k\) Guide](#) covers the plan-type baseline. Most DFW conversions we support are driven by a combination of two or three of these factors rather than one trigger.

THE TWO PATHS TO CONVERT A SIMPLE IRA TO A 401(K) IN DALLAS-FORT WORTH

Until recently, DFW owners had only one route: terminate the SIMPLE at year end and launch the 401(k) on January 1. SECURE 2.0 opened a second route in 2024, under specific conditions. Both remain available; the right choice depends on the calendar, cash flow, and administrative sequencing.

PATH A: TRADITIONAL YEAR-END SIMPLE TERMINATION AND JANUARY 1 401(K) LAUNCH

The traditional path exists because of the SIMPLE’s exclusive-plan rule. Under IRC §408(p)(2)(D), a SIMPLE may not be maintained for a calendar year in which the employer also maintains a qualified plan such as a 401(k). Before 2024, the IRS position was that a SIMPLE could only be terminated at year end. The mechanics: notify participants at least 60 days before the effective date, terminate the SIMPLE effective December 31, and launch the new 401(k) on January 1.

PATH B: SECURE 2.0 §332 MID-YEAR REPLACEMENT WITH A SAFE HARBOR 401(K)

SECURE 2.0 §332, effective for plan years beginning after December 31, 2023, permits a mid-year switch, but only if the replacement is a safe harbor 401(k) (traditional safe harbor or a Qualified Automatic Contribution Arrangement). The IRS provided operational guidance in Notice 2024-2 (Q&A G-3, G-4, and G-7), released December 20, 2023. The employer must document the SIMPLE termination date, give

employees notice at least 30 days before that date, and start the safe harbor plan the day after termination. Notice 2024-2 also waives the standard 2-year restriction on a SIMPLE IRA rollover into the new safe harbor plan, though rolled amounts carry the 401(k)'s distribution rules under IRC §401(k)(2)(B).

WHICH PATH FITS WHICH DALLAS-FORT WORTH BUSINESS

Path A is cleaner when the owner wants an unconstrained 401(k) design or when the calendar already supports a January 1 launch. Path B fits when owner-employees are at the SIMPLE cap and want additional capacity mid-year, when a hire wave or acquisition has pushed headcount past 100, or when safe harbor is the preferred structure anyway. In our work with DFW plan sponsors, the timing of owner compensation events and the payroll system's readiness for auto-enrollment most often tip the choice.

“NEITHER PATH IS A DEFAULT. THE RIGHT ONE TURNS ON THE OWNER'S CALENDAR, NOT ON WHICH CAME FIRST.”

NOTICE, TIMING, AND THE DEADLINES THAT TRIP DFW OWNERS UP

Both paths turn on notification requirements. Missing a deadline means waiting another plan year.

THE 60-DAY SIMPLE PARTICIPANT NOTICE AND THE NOVEMBER 2 ANCHOR

The SIMPLE requires the employer to give eligible employees a 60-day election window before the plan year to start, change, or stop salary-reduction contributions (IRS “SIMPLE IRA plan” sponsor page; IRS Notice 98-4 Q&A E-1). For a calendar-year plan effective January 1, that window customarily begins November 2. Under Path A, the November 2 notice closes out the terminating SIMPLE year and gives employees time to prepare for the 401(k). Owners who wait until December typically miss the window and delay the launch by a full year.

“OWNERS WHO WAIT UNTIL DECEMBER TYPICALLY MISS THE WINDOW AND DELAY THE LAUNCH BY A FULL YEAR.”

THE 30-DAY §332 EMPLOYEE NOTICE FOR MID-YEAR TERMINATION

Under Path B, IRS Notice 2024-2 Q&A G-3 imposes a 30-day employee notification requirement before the SIMPLE termination date. This notice is separate from the annual safe harbor 401(k) notice, which must be provided 30 to 90 days before the plan year for match-based safe harbor plans (IRS “Notice requirement for a safe harbor 401(k) or 401(m) plan”). Both notices are typically needed for a mid-year replacement, and the safe harbor notice must disclose the special transition-year deferral limit. Sequencing these with payroll providers and payroll cut-offs is where most DFW plan sponsors need TPA support.

THE TRANSITION-YEAR DEFERRAL PRORATION AND HOW THE MATH ACTUALLY WORKS

Notice 2024-2 Q&A G-7 sets a time-weighted deferral limit for the year of a §332 mid-year replacement. The combined limit equals the SIMPLE limit times the fraction of the year the SIMPLE was in effect, plus the safe harbor 401(k) limit times the fraction that plan was in effect, minus amounts already deferred to the SIMPLE. The statute uses a 365-day convention even in leap years. Any worked example must be tied to a stated plan year and confirmed with the plan's TPA or ERISA counsel.

DESIGNING THE NEW SAFE HARBOR 401(K): DECISIONS BEFORE LAUNCH

SAFE HARBOR ELECTION AND MATCHING FORMULA

Path B requires a safe harbor 401(k) with mandatory employer contributions: either a matching formula (typically 100% on the first 3% plus 50% on the next 2%, or an equally generous enhanced match) or a 3% nonelective payment to all eligible employees. Safe harbor skips the ADP and ACP nondiscrimination tests, which is why SECURE 2.0 required it for mid-year replacements. Path A conversions have more flexibility: any 401(k) design is available, including non-safe-harbor plans that carry testing. For a fuller framework on match design, plan fees, and vesting, see our [401\(k\) Plan Costs, Design Options, and Tax Benefits: A Strategic Guide](#).

THE SECURE 2.0 §101 AUTOMATIC ENROLLMENT MANDATE THAT LIKELY APPLIES

SECURE 2.0 §101 requires 401(k) and 403(b) plans established after December 29, 2022 to include an Eligible Automatic Contribution Arrangement (auto-enroll at 3% to 10%, escalate 1% per year to a range of 10% to 15%) for plan years beginning after December 31, 2024 (IRC §414A; proposed Treasury Regulation §1.414A-1, January 2025). Excepted: governmental and church plans, SIMPLE 401(k)s, sub-three-year-old businesses, and employers with 10 or fewer employees. A new 401(k) replacing a SIMPLE is post-enactment, so auto-enrollment is generally mandatory. Vanguard's How America Saves 2025 Small Business Edition reports only 24% of small plans have adopted auto-enrollment vs. 61% of large plans; participation reaches 81% when small plans do.

THE §603 ROTH CATCH-UP RULE FOR HIGH EARNERS

Beginning January 1, 2026, SECURE 2.0 §603 requires catch-up contributions in 401(k), 403(b), and 457(b) plans to be made as Roth contributions (after-tax, no upfront income tax deduction) for participants age 50+ whose prior-year FICA wages from the sponsoring employer exceeded a threshold. The 2026 applicable figure is \$150,000 (statutory base: \$145,000), indexed thereafter. Final regulations (IRS, September 16, 2025) permit good-faith 2026 compliance and require full compliance for plan years beginning January 1, 2027, with amendments due December 31, 2026. The rule does not apply to SIMPLE IRAs (IRC §414(v)(7)). Our [2026 Roth Catch-Up Rules for High Earners](#) covers implementation.

WHAT CONVERSION ACTUALLY COSTS, AND WHEN THE SIMPLE IS STILL THE RIGHT ANSWER

THE TRUE OPERATING COST OF A 401(K) VS. THE SIMPLE

A 401(k) adds administrative infrastructure the SIMPLE does not require: an annual Form 5500, nondiscrimination testing (unless safe harbor), and recordkeeper/TPA fees. Third-party TPA estimates commonly cited for context, not as PWG figures, put Form 5500 preparation at roughly \$1,000 to \$2,000 per year, testing at \$1,500 to \$3,000, and TPA services at \$2,000 to \$5,000+, with a separate plan audit of \$5,000 to \$20,000 once the plan crosses roughly 100 participants (illustrative ranges from firms including Employee Fiduciary and DWC). SECURE 2.0 startup tax credits may partially offset costs for eligible small employers.

ERISA §404(A) FIDUCIARY DUTIES ATTACH THE DAY THE 401(K) LAUNCHES

The day a 401(k) begins operating, the plan sponsor becomes a fiduciary under Employee Retirement Income Security Act §404(a): duties to prudently select investments, keep expenses reasonable, and act in participants' exclusive interest. The SIMPLE structure largely avoids these obligations because the accounts are IRAs held by employees. The fiduciary responsibility is not a reason to avoid conversion, but it is a real change in exposure that deserves documentation, benchmarking, and independent review. Most of our DFW plan sponsors work with a Section 3(21) or 3(38) investment fiduciary who shares or accepts investment-selection responsibility.

WHEN STAYING IN THE SIMPLE IS THE RIGHT CALL FOR A DFW OWNER

For a very small, cost-sensitive employer whose owner is comfortable at the SIMPLE deferral cap, has no strong reason to add a vesting schedule, and values the plan's low administrative footprint, the SIMPLE can remain the right choice. Conversion is not universally correct. When we work with owners in the 25-to-50-employee range whose primary retirement savings occur outside the plan, we sometimes recommend keeping the SIMPLE and revisiting annually.

FREQUENTLY ASKED QUESTIONS

Q: CAN I HAVE A SIMPLE IRA AND A 401(K) AT THE SAME TIME?

No. IRC §408(p)(2)(D) sets an "exclusive plan" rule: an employer may not maintain a SIMPLE for any calendar year in which the employer also maintains a qualified plan such as a 401(k). This is why conversion requires terminating the SIMPLE rather than layering the 401(k) on top of it. Owners who want higher deferrals or more flexibility must choose the switch calendar rather than run both plans in parallel.

Q: CAN YOU SWITCH FROM A SIMPLE IRA TO A 401(K) MID-YEAR?

Yes, but only under SECURE 2.0 §332 and only if the replacement is a safe harbor 401(k). Before 2024, the IRS position was that a SIMPLE could only be terminated at year end. For plan years beginning after December 31, 2023, §332 permits a mid-year switch when the replacement meets the safe harbor requirements and the notice conditions in IRS Notice 2024-2. A mid-year switch to a non-safe-harbor plan still requires waiting until year end.

Q: DO I HAVE TO WAIT 2 YEARS TO ROLL OVER A SIMPLE IRA TO A 401(K)?

Generally yes, with a specific exception. IRC §408(d)(3)(G) restricts a SIMPLE IRA rollover to a non-SIMPLE plan (whether a 401(k) or a Roth IRA) during the first two years of participation. A distribution during that period taken before age 59 1/2 carries a 25% early-withdrawal additional tax in place of the standard 10% §72(t) penalty. Notice 2024-2 Q&A G-4 waives the 2-year restriction for funds rolling into a safe harbor 401(k) under a §332 mid-year replacement. The rolled funds then carry the 401(k)'s standard distribution restrictions.

Q: HOW MUCH DOES IT COST TO CONVERT A SIMPLE IRA TO A 401(K)?

Costs vary by plan size, provider, and design. Third-party TPA estimates commonly cited for context suggest annual 401(k) administration of roughly \$3,500 to \$10,000 for a small plan (Form 5500, testing, and TPA services combined), plus a plan audit of \$5,000 to \$20,000 once the plan reaches roughly 100 participants. SECURE 2.0 startup tax credits may offset some costs for eligible small employers. Request written fee disclosures from two or three providers before selecting.

PLAN YOUR CONVERSION CALENDAR

If your DFW business is approaching the SIMPLE ceiling or owner deferrals have hit the cap, a focused conversation can map the calendar, notices, and design decisions before they become urgent. No cost, no obligation.

ABOUT PALMER WEALTH GROUP™

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IMPORTANT DISCLOSURES

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Regulatory References. Regulatory thresholds, contribution limits, tax rates, notice deadlines, and statutory provisions referenced in this article — including Internal Revenue Code sections cited, SECURE 2.0 Act provisions, and IRS Notice 2024-2 and Notice 2025-67 — are current as of September 2026 and are subject to change. Readers should confirm current figures with the IRS or a qualified tax professional before relying on them for plan design or operational decisions.

Forward-Looking Statements. Certain statements in this article reference plan-design decisions, regulatory implementation dates, and third-party benchmark research (including Vanguard's How America Saves 2025 Small Business Edition). Forward-looking statements are inherently uncertain, are not guarantees of future results, and actual outcomes for any specific employer or participant may differ materially.

Third-Party Data. Administrative cost ranges, plan participation benchmarks, and industry statistics cited in this article are drawn from third-party sources (including Employee Fiduciary, DWC, Vanguard, and the SBA Office of Advocacy) and are believed to be reliable, but their accuracy and completeness are not guaranteed. Illustrative fee ranges are not Palmer Wealth Group figures and do not represent quotes for services.

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Secondary Sources

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2. DWC – The 401(k) Experts. "401(k) Plan Administration Costs and Fees." Illustrative fee ranges. <https://www.dwc401k.com>
3. Employee Fiduciary. "How to Replace a SIMPLE IRA with a 401(k) – SECURE 2.0 Update." 2024. <https://www.employeefiduciary.com/blog/how-to-replace-simple-ira-with-401k>
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Legal Authorities

Internal Revenue Code

- Internal Revenue Code §72(t) — Additional tax on early distributions from qualified retirement plans.
- Internal Revenue Code §401(k)(2)(B) — Distribution restrictions for qualified cash or deferred arrangements.
- Internal Revenue Code §408(d)(3)(G) — SIMPLE IRA rollover restrictions, including the two-year holding period and 25% additional tax.
- Internal Revenue Code §408(p) — SIMPLE retirement account framework.
- Internal Revenue Code §408(p)(2)(C)(i) — 100-employee eligibility ceiling and two-year grace period for SIMPLE IRAs.
- Internal Revenue Code §408(p)(2)(D) — Exclusive plan rule (no other qualified plan permitted for the same calendar year).
- Internal Revenue Code §414A — Automatic enrollment requirement for certain 401(k) and 403(b) plans.
- Internal Revenue Code §414(v)(7) — Roth catch-up contribution rule; SIMPLE IRAs and SEP IRAs not subject to §603.

Treasury Regulations

Proposed Treasury Regulation §1.414A-1 — Automatic enrollment mandate under SECURE 2.0 §101. Proposed January 2025.

IRS Materials

- IRS Notice 98-4 — SIMPLE IRA plan guidance, including the 60-day participant notification requirement (Q&A E-1). 1997-52 I.R.B.

- IRS Notice 2024-2 – Miscellaneous SECURE 2.0 Act guidance (“Grab Bag”), including §332 mid-year SIMPLE IRA replacement mechanics (Q&A G-3, G-4, G-7). Released December 20, 2023.
- IRS Notice 2025-67 – 2026 cost-of-living adjustments applicable to retirement plans, including SIMPLE IRA and 401(k) elective deferral and catch-up limits. 2025.
- IRS IR-2025-111 – Press release announcing 2026 retirement plan contribution limits. 2025.
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- IRS Final Regulations on §603 Roth Catch-Up Contributions. Released September 16, 2025.

Federal Legislation

- Employee Retirement Income Security Act of 1974, §404(a) – Fiduciary duties (prudence, exclusive purpose, reasonable expenses).
- SECURE 2.0 Act of 2022, §101 – Expansion of automatic enrollment in retirement plans.
- SECURE 2.0 Act of 2022, §109 – Higher catch-up limit at ages 60 through 63.
- SECURE 2.0 Act of 2022, §117 – Contribution limit for SIMPLE plans.
- SECURE 2.0 Act of 2022, §332 – Employers allowed to replace SIMPLE retirement accounts with safe harbor 401(k) plans during a year.
- SECURE 2.0 Act of 2022, §603 – Elective deferrals generally limited to regular contribution limit; Roth treatment required for catch-up contributions of high-income participants.

Research Methodology: This article was prepared with the assistance of AI tools that supported research synthesis and initial drafting. AI tools do not exercise professional judgment and may have gaps in current regulatory or market information. All content was independently reviewed by qualified Palmer Wealth Group™ professionals. The analysis and guidance expressed here represent the professional judgment of Palmer Wealth Group™, not AI outputs. Palmer Wealth Group™ assumes full editorial and compliance responsibility for this content.

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