

SEPs

Simplified Employee Pension Plan

Sample

Questions & Answers

What is a Simplified Employee Pension (SEP) plan?

A SEP, also known as a SEP-IRA, is a retirement plan established by an employer. A one-person business is considered an employer for these purposes and may establish a SEP. An employer can use this SEP plan to make contributions to the IRAs of eligible employees, including himself or herself. A (SEP) is a written arrangement (a plan) that allows an employer to make deductible contributions for the benefit of participating employees. The contributions are made to traditional individual retirement arrangements (IRAs) set up for participants in the plan. Under a SEP, traditional IRAs must be set up for each qualifying employee. IRAs may have to be set up for leased employees, but they do not have to be set up for excludable employees. Traditional IRAs set up under a SEP plan are referred to as SEP-IRAs.

Who is eligible to establish a SEP?

Any employer, including a sole proprietor, partnership, or corporation, can establish a SEP. The corporation may either be a for-profit corporation or a nonprofit corporation. A governmental entity may also establish a SEP. When a self-employed individual sponsors a SEP, he or she is considered to be both the employer and an employee.

Why would an employer, including a one-person business, want to have a SEP?

There are five excellent reasons for establishing a SEP:

- ◆ The SEP contribution is deductible by the employer, and it is not included in the employee's income for the year.
- ◆ The SEP contributions are not subject to withholding or FICA taxes unless an individual is self-employed.
- ◆ Interest earned on the SEP deposit is sheltered from federal and most state income taxes until withdrawals are made at retirement.
- ◆ Due to the effects of compounding, the SEP funds can grow into a sizable nest egg for retirement.
- ◆ Administrative and legal costs are generally substantially less than would be incurred under a qualified plan.