

# SEPs AND SIMPLES VS. 401(K)

## USING IRAS FOR SIMPLIFIED EMPLOYEE PENSIONS (SEPs) AND SAVINGS INCENTIVE MATCH PLANS FOR EMPLOYEES (SIMPLES)

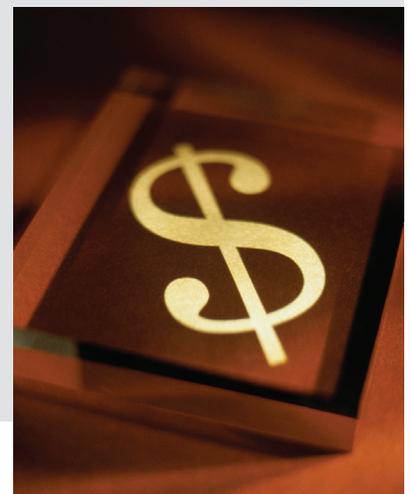
SEPs and SIMPLE plans can be adopted by corporations, partnerships, LLCs and self-employed individuals using Individual Retirement Arrangements (IRA's) for the funding.

### SEPs

- Can be adopted using a simplified prototype document after the end of the tax year.
- Can coincide with the employer's fiscal year.
- Employer has discretion on amount of contribution each year.
- No IRS Form 5500 reporting.
- Employer contributions are always 100% vested.
- Same contribution limits as qualified profit sharing plan.
- Must cover employees who are at least 21 years old, have performed services for the employer during the year for which the contribution is made, and for at least three of the immediately preceding five years has received at least \$600 in compensation from the employer for the year.
- Employer can maintain other qualified plans.
- Participant loans are not permitted.

### SIMPLES

- Can be adopted by employers who employ no more than 100 employees.
- Must be a calendar year and adopted by October 1 (or as soon as possible for a newly established employer).
- No IRS Form 5500 reporting.
- Employer contributions are always 100% vested.
- Employees can elect to defer the lesser of \$13,000 or 100% of compensation. If over 50, an additional "catch-up" contribution of \$3,000 can be made.
- Employee deferral elections must be made



- Employers can not maintain any other qualified plan.
- Participant loans are not permitted.
- Employer must select one of two contribution formulas:
  1. Matching Contribution
    - a. The employer must match participant deferrals on a dollar-for-dollar basis up to 3% of compensation.
    - b. Special election: Within a reasonable period before the 60th day preceding the beginning of the calendar year the employer may notify the employees of its election to match participant deferrals on a dollar-for-dollar basis on a lower percentage of compensation (not less than 1%) for any year. The election may not result in the percentage being less than 3% in more than 2 out of any 5 years.
  2. Nonelective Contribution. Instead of the matching contribution in 1 above, the employer may elect to make a nonelective contribution of 2% of compensation for each eligible employee for the current year. The employer must notify employees of this election within a reasonable period before the 60th day preceding the beginning of the calendar year.

## COMPARISON OF SEP, SIMPLE AND SAFE-HARBOR 401(K) PLANS

Participant	Compensation	SEP	SIMPLE			Safe-Harbor 401(k) Plan				
		Prorata Contribution	Employee Deferral	Employer Safe Harbor	Total	Employee Deferral	Employer Safe Harbor	Total		
Owner	\$120,000	\$30,000	\$13,000	\$2,400	2%	\$15,400	\$19,000	\$3,600	3%	\$22,600
Employee A	\$60,000	\$15,000	\$6,000	\$1,200	2%	\$7,200	\$6,000	\$1,800	3%	\$7,800
Employee B	\$40,000	\$10,000	\$2,000	\$800	2%	\$2,800	\$2,000	\$1,200	3%	\$3,200
Employee C	\$30,000	\$7,500	\$0	\$600	2%	\$600	\$0	\$900	3%	\$900
Totals	\$250,000	\$62,500	\$21,000	\$5,000		\$26,000	\$27,000	\$7,500		\$34,500

% to Owner (including deferral)	48%
Total Contribution to Owner	\$30,000
Contribution to Employees	\$32,500

85%
\$15,400
\$2,600

85%
\$22,600
\$3,900

\*Catch-up contribution of \$3,000 available for participants age 50 or older.

\*\*Catch-up contribution of \$6,000 available for participants age 50 or older.