Simplified Employee Pension Plan

Everence®

A Simplified Employee Pension Plan (SEP) provides a simple way for an employer to set aside funds for an employee's retirement income. The employer contributes a certain amount to an SEP- IRA which is an Individual Retirement Account or Annuity that the employee establishes.

Eligibility

Who can set up an SEP?
Any employer who wishes to set aside funds for an employee's retirement.

Who should consider an SEP?

- Employers who failed to establish a qualified plan by the end of the year. SEPs can be established through the tax filing deadline for the previous tax year.
- Employers who want to avoid the annual reporting requirements of qualified plans.
- Employers who don't want to commit themselves to making contributions every year.
- Self-employed people.

Who should not consider an SEP?

- Employers who own a controlling interest in another business if they don't want to make contributions for the employees of that business.
- Employers who want to exclude employees from coverage. For example, employees who regularly complete less than 1,000 hours of service each year can be excluded from coverage in a qualified plan.
- Employers who want to restrict their employee's right to withdraw funds.

What are the eligibility requirements of the SEP?
For any year in which the employer decides to make an SEP contribution, the employer must contribute to the account of each employee who has reached age 21 and who has performed service for the employer during at least three out of the last five years. This includes all full-time, part-time, and seasonal employees. The employer can develop less restrictive eligibility requirements. The employer does not have to contribute to a SEP-IRA for any person who earns less than $600 (adjusted for inflation each year) during the year for which the contribution is made.

Must an employer contribute to an employee's IRA each year?
The employer decides each year if a contribution will be made. If contributions are made, all eligible employees must be included, even if the employee has terminated employment or is deceased. Employers are required to notify former employees in person or by mail that contributions were made to their account. Employer contributions must represent a uniform percentage of each participant's total compensation up to $275,000 (adjusted for inflation each year). Contributions will be deemed to have been made at a uniform percentage if the contribution percentage is fixed. If employers want the contribution percentage to decrease as compensation increases, they cannot use Form 5305-SEP.

What if an employee doesn't want to participate in the SEP?
In order to offer the SEP, all eligible employees are required to set up SEP-IRAs. If one employee doesn't set up an SEP-IRA, it disqualifies the plan for everyone. An employer can establish an SEP-IRA for an employee if the employee refuses to. The employer can avoid this problem by making participation in the SEP a condition of employment.

Does the employer have to comply with the rules covering top-heavy plans?
Yes. The SEP will be considered top-heavy if 60 percent of the aggregate account balances belong to key employees. If the SEP is top-heavy, a minimum contribution of three percent must be made for **all** eligible non-key employees in any year the employer makes SEP contributions.

What is a key employee?
A key employee is any current or former employee who at any time during the current year has been:

1. an officer of the employer whose annual compensation from the employer exceeds $175,000; or
2. a more than 5 percent owner of the employer; or
3. a more than 1 percent owner of the employer having annual compensation from the employer in excess of $150,000.

Contributions

What are the employer contribution limits under the SEP for employees?
The employer can contribute the lesser of $55,000 or 25 percent of the employee's compensation, not to exceed $275,000, as reported on the employee's W-2. Unlike the IRA, employer contributions must be made to an SEP-IRA for a person 70½ or older, but that person must also comply with the IRA requirement that benefits begin by April 1 following the year the person reaches age 70½.

What are the contribution limits for a self-employed person?
The contribution limits are the same as for an employee, except the self-employed person must base the SEP contribution on earned income. Earned income is the self-employed's net earnings from self-employment, with respect to a trade or business, reduced by any deductible contributions to the SEP-IRA or any other qualified plan, and the deductible portion of the individual's self-employment tax (if any). Talk with your tax accountant to calculate your maximum contribution.

May an employee make regular IRA contributions in addition to the employer contributions?
Yes. In addition to contributions the employer makes, employees are allowed to contribute to an IRA. However, the deductibility of employee IRA contributions depends on their income in years the employer makes a contribution to an SEP. Your employees may also contribute to a Roth IRA.

What happens when the employer contributes too much for an employee?
If an employer contributes more than 25 percent of an employee's compensation, the excess is treated as if it had been made by the employee to a regular IRA. To the extent that the excess amount plus any other contributions made by the employee exceeds the employee's IRA limitation, the employee will have an excess contribution which will be subject to a 6 percent excise tax. The excise tax can be avoided by withdrawing the excess plus earnings prior to the tax filing deadline.

Can employer SEP contributions be made to an existing Everence IRA?
For reporting purposes, Everence needs to keep regular IRA contributions separate from employer SEP contributions. The only way we can do that is by setting up two IRAs. It is to the employee's advantage to set up separate accounts for regular IRA and SEP-IRA contributions. SEP-IRAs that have only employer contributions may be protected from creditors in the case of bankruptcy, where regular IRAs are not. However, a self-employed person's SEP-IRA does not have that same protection if there are no employees.

Can an employer make SEP contributions to the IRA of an eligible employee's spouse?
No. An employer can only make contributions to an IRA set up by an eligible employee.

What is the deadline for making SEP contributions?
The employer has until the tax filing deadline (plus extensions) to establish and make contributions to employees' SEP-IRAs.

How are employer contributions treated for tax purposes?
Employer contributions are excluded from the employee's gross income for both income and Social Security purposes.

Employers can deduct their contributions to SEP-IRAs. However, the deduction cannot exceed 25 percent of the total compensation paid to all employees covered under the SEP. If the employer contributes more than the allowable deduction, a 10 percent penalty tax will be assessed against the excess unless it is removed by the tax filing deadline.

Please see your tax advisor for more information.

General
What are the vesting requirements?
Employees are 100 percent vested immediately. The employer cannot prohibit withdrawals from the SEP-IRA by the employee, nor can the employer withhold SEP-IRA contributions on the condition that the employee keep a portion of the money in the account.

Can an employee roll funds from the SEP-IRA to another IRA?
Yes. An employee can move funds from one IRA to another at any time. If the employee receives the funds, he or she will have 60 days to reinvest those funds in another IRA. This is called a rollover. The employee is limited to one rollover per 12 month period. The employee can also have funds transferred directly from one trustee to another and there is no limit to the number of transfers an employee can make in one year. The employee should let the trustee know that the funds being rolled over or transferred are from an SEP-IRA.

May an employee be covered under SEPs of several different employers?
Yes. If a person is employed by two different employers, the employee can participate in both SEPs. Contributions from each employer can be based only on the compensation paid to the employee by each employer.

How to enroll
How does an employer establish an SEP?
There are three ways. First, the employer can adopt a master or prototype plan that has been approved by the Internal Revenue Service. Second, the employer can get approval for an individually designed plan. The third and easiest way is to use the attached Form 5305-SEP.

When would you use each method?
Form 5305-SEP can be used when:

- The employer does not currently maintain a qualified retirement plan;
- The employer does not use the services of leased employees;
- The employer is not a member of an affiliated service group, a controlled group of corporations, or trades or businesses under common control, unless all eligible employees of all members of those groups participate in the SEP;
- The employer will contribute a fixed percentage of all eligible employee's compensation to the SEP; and
- The employer operates the SEP on a calendar-year basis.

If the employer does not meet all of the above guidelines, a master or prototype SEP must be used, or the employer must design her or her own plan. Everence does not have an approved master or prototype plan. These plans may be available from banks or other financial institutions. But employees can still open their SEP-IRA with Everence.

Setting up the SEP Plan

1. Complete the top portion of Form 5305-SEP, sign, and date it. Keep the original and send a copy to Everence. You do not need to file this with the IRS. You must also have a written allocation formula setting out how the contribution for each employee will be calculated.
2. Give each eligible employee a copy of the executed Form 5305-SEP and a copy of the written allocation formula. If the employer is a corporation, a corporate resolution must be properly executed and furnished to employees to show the adoption of the plan.
3. If the employer selects, recommends, or substantially influences employees to select a particular SEP-IRA and there are restrictions within that SEP-IRA on the employees' ability to withdraw funds (other than the normal IRA restrictions), the employer may be subject to annual reporting requirements using Form 5500. See your tax adviser for more information.
4. Require each eligible employee to establish an SEP-IRA.
5. Make the employer contribution directly to the employee's SEP-IRA.
6. Furnish each eligible employee with a written statement indicating the amount and date of the employer contribution for the year, the tax year for which the contribution was applied, and the financial institution where the contribution was made.

   This statement must be given to the employees no later than the latest of: 1) 30 days after the contribution was made; and 2) Jan. 31 of the year following the year for which the contribution was made.
7. If the employer changes or replaces the SEP, employees must be given a copy of the changes within 30 days after the change is effective.

This material is intended to provide general information. It is not intended as legal or tax advice. Please consult your tax attorney or accountant on specific questions related to you situation.