

Employer Options: SEP and SIMPLE IRA Plans



Learning Objectives

- ✔ Compare the benefits and advantages of SEP and SIMPLE IRA plans for small employers
- ✔ Identify the types of employers eligible to establish SEP and SIMPLE IRA plans
- ✔ Describe the plan document choices available
- ✔ Explain employee eligibility requirements
- ✔ Understand contribution limits

Introduction



SEP Plans

- Traditional IRA
- Any business
- Only employer contributions
- Alternative to profit sharing plan

SIMPLE IRA Plans

- 100 or fewer employees
- Employer and employee contributions
- Alternative to 401(k) plan

Employer Benefits

- Less expensive
- Simple to maintain
- No IRS or DOL reporting
- No nondiscrimination testing
- Tax deductible
- Year-to-year plans
- Possible tax credit
- Not responsible for managing assets

SEP



SIMPLE

Employee Benefits

- Investment control
- Pretax contributions
- Can still make regular IRA contributions
- Immediate access
- Contributions made entirely by employer

SEP



SIMPLE

Financial Organization Benefits

- Full-service provider
- Employee relationships
- Business relationships

SEP



SIMPLE

SEP Plans

A blue-tinted photograph of three business professionals (two men and one woman) sitting around a table in a meeting. They are looking at laptops and documents. The woman is on the left, and the two men are on the right. The background is a blurred office setting.

SEP Plan Employer Eligibility



Any business
entity



State or local
government
entities

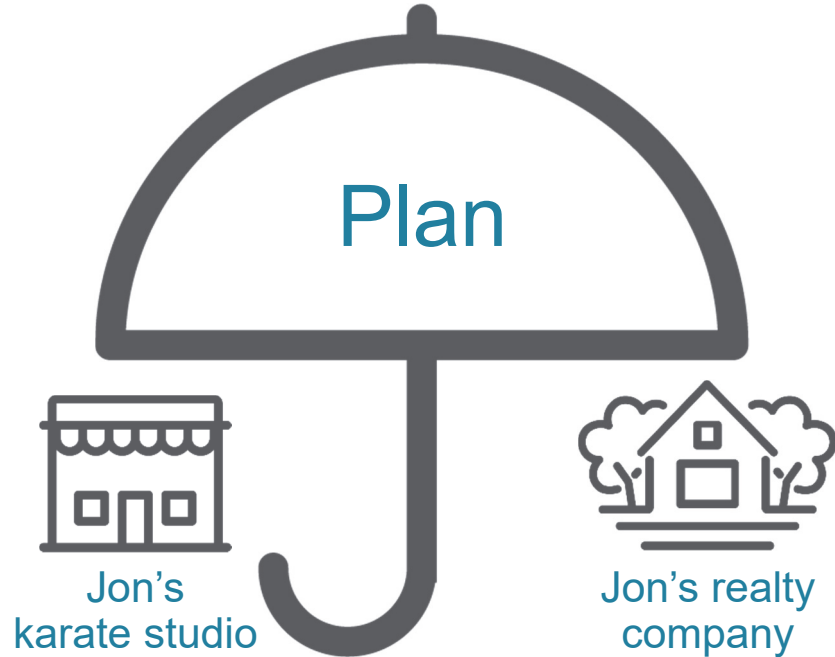


Tax-exempt
organizations



Controlled
groups

SEP Plan Controlled Groups



May need to cover all eligible employees

Establishing a SEP Plan

Employer Documents

- Form 5305-SEP
- Prototype
- Individually designed

Employee Documents

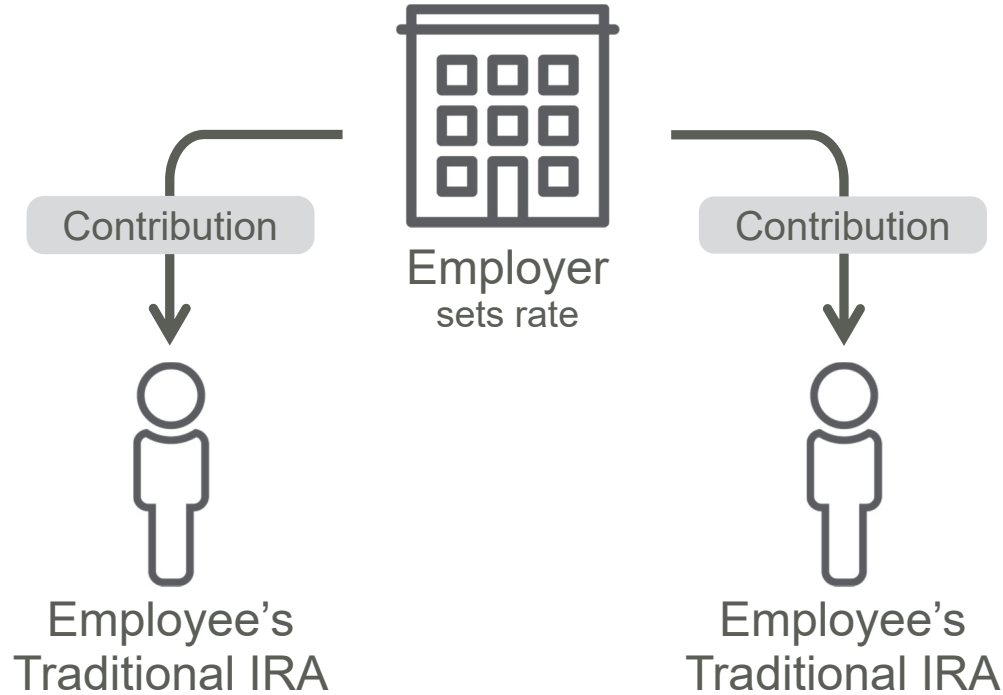
- Traditional IRA



SEP Plan Employee Eligibility

Employee Eligibility Requirements	
Employers <i>may</i> require	Maximum Restriction
Minimum age	Up to 21 (Contributions may be made after age 70½)
Years of service	Up to 3 of last 5 years
Compensation	\$600 minimum (2019)
May exclude union employees where retirement benefits were part of bargaining agreement	
May exclude nonresident aliens with no U.S. income	
May exclude leased employees	

SEP Plan Employer Contributions



SEP Plan Employer Contributions



Pro rata



Flat dollar*



**Social Security
integration***

* Not permitted on IRS model document

Pro Rata Method Example

Catco Media SEP plan

Contribution rate set at 10%

	<u>Compensation</u>		<u>Percentage</u>		<u>SEP Contribution</u>
James	\$74,000	x	10%	=	\$7,400
Kara	\$52,750	x	10%	=	\$5,275
Alex	\$31,500	x	10%	=	\$3,150

Contribution is same percentage of each employee's salary



SEP Plan Employer Contributions



Maximum contribution is lesser of 25% compensation or \$56,000 (2019)

Compensation cap applies (\$280,000 for 2019)

Generally same rate for all eligible employees

Contributions discretionary

SEP Plan Employer Contributions



Reported separately
from regular IRA
contributions

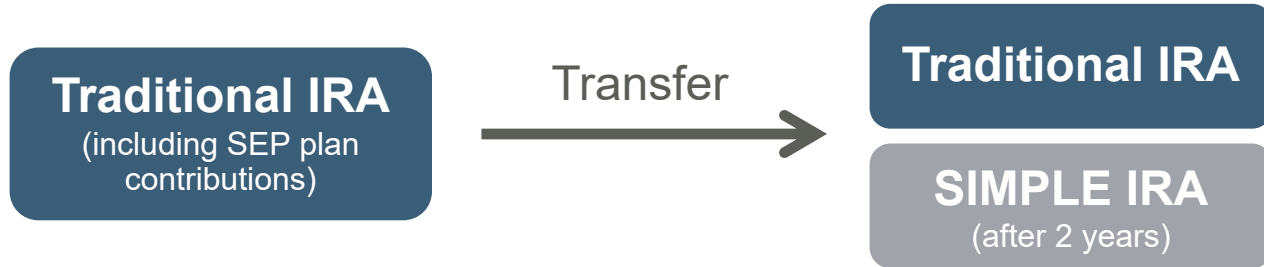


Employer must
notify employees
of contribution
each year

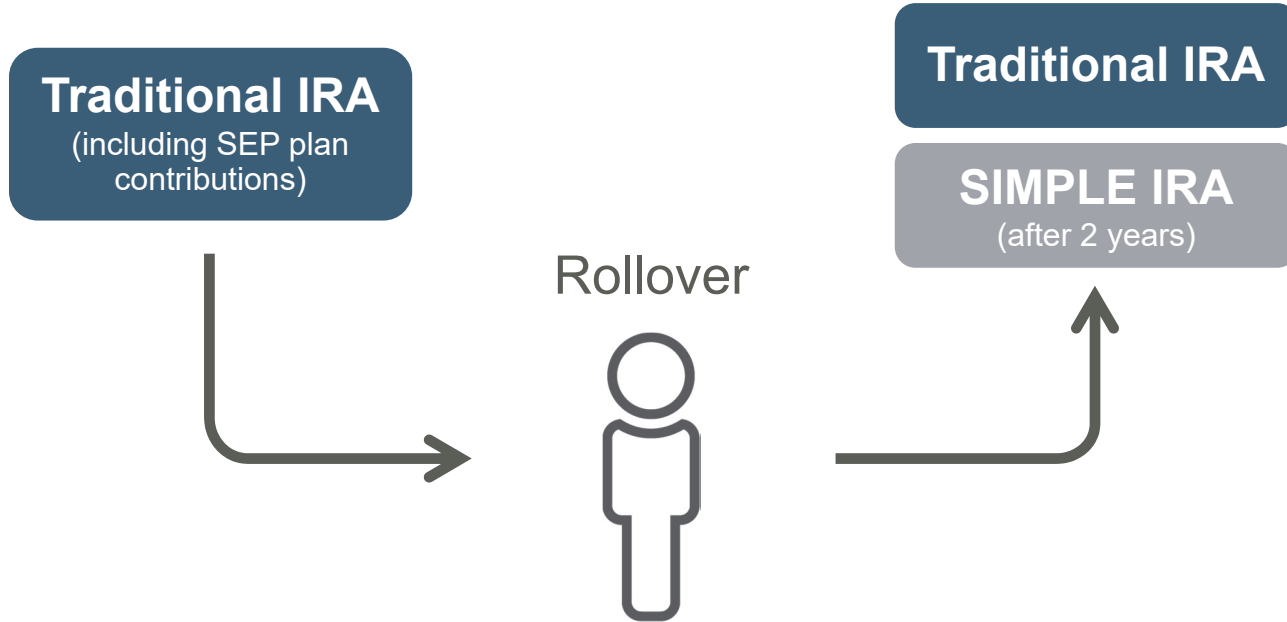


Deadline is
employer's tax filing
due date (plus
extensions)

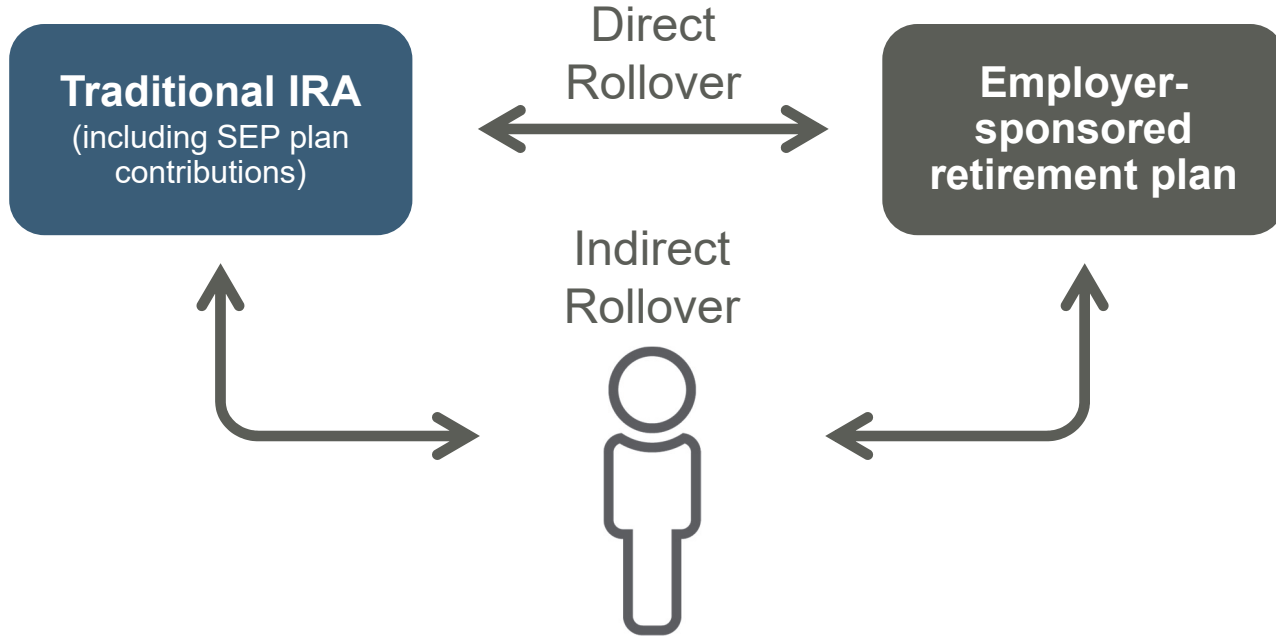
SEP Plan Portability



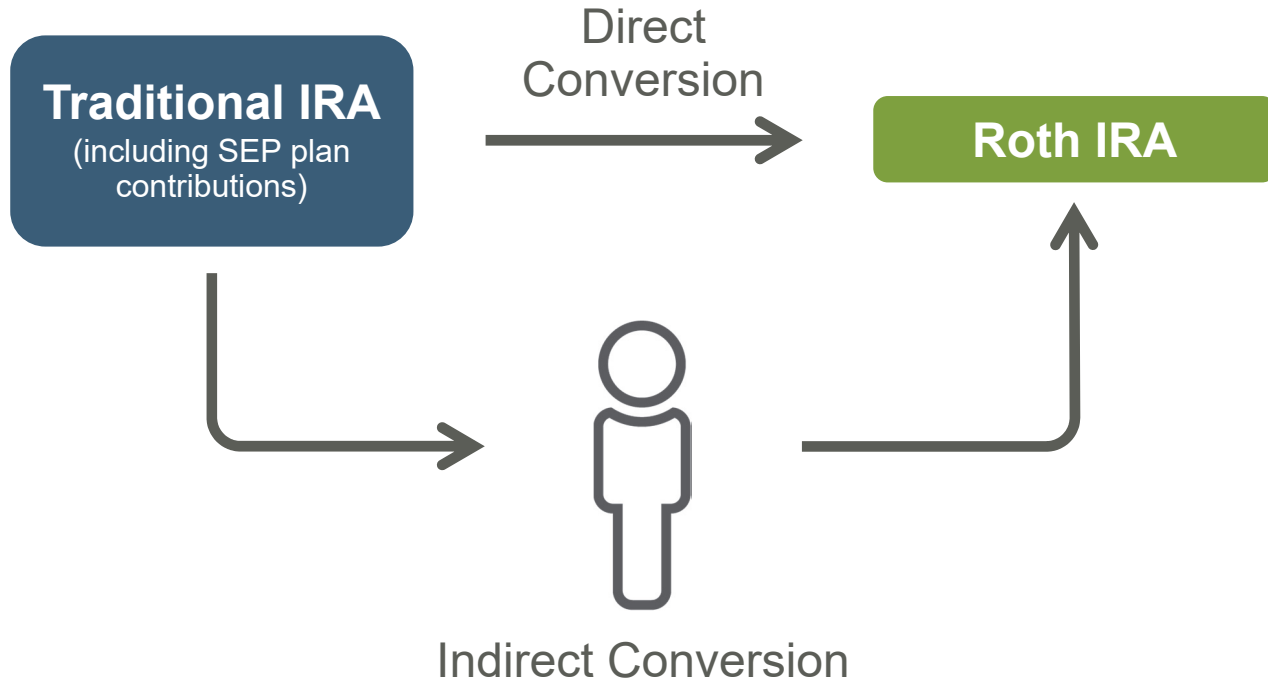
SEP Plan Portability



SEP Plan Portability



SEP Plan Portability



SEP Plan Distributions



Same distribution and reporting rules
as Traditional IRAs

SEP Plan Reporting

- FMV statement – January 31
- RMD statement – January 31
- Form 1099-R – January 31
- Account statement – May 31
- Form 5498 – May 31



Reporting SEP Contributions

2828 VOID CORRECTED

TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a) \$	OMB No. 1545-0747 <div style="font-size: 2em; font-weight: bold; text-align: center;">2019</div>	IRA Contribution Information
TRUSTEE'S or ISSUER'S TIN PARTICIPANT'S TIN		2 Rollover contributions \$	Form 5498	Copy A For Internal Revenue Service Center File with Form 1096.
PARTICIPANT'S name		3 Roth IRA conversion amount \$	4 Recharacterized contributions \$	
Street address (including apt. no.)		5 FMV of account \$	6 Life insurance cost included in box 1 \$	For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.
City or town, state or province, country, and ZIP or foreign postal code		7 IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Roth IRA <input type="checkbox"/>	8 SEP contributions \$	
Account number (see instructions)		10 Roth IRA contributions \$	9 SIMPLE contributions \$	
15a FMV of certain specified assets \$		11 Check if RMD for 2020 <input type="checkbox"/>	12a RMD date \$	
14a Repayments \$		12b RMD amount \$	13a Postponed/late contrib. \$	13b Year 13c Code
15b Code(s)		14b Code	15a FMV of certain specified assets \$	

Form 5498 Cat. No. 50010C www.irs.gov/Form5498 Department of the Treasury - Internal Revenue Service

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Box 8 = Report SEP employer contributions for year in which they were made.



SIMPLE IRA Plans

SIMPLE IRA Plan Employer Eligibility



Any business
entity



State or local
government
entities

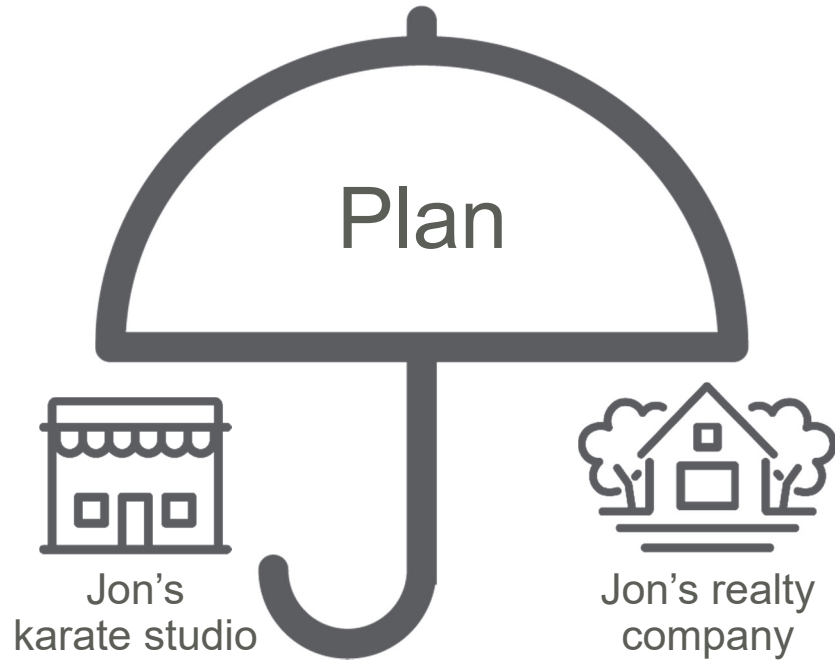


Tax-exempt
organizations



Controlled
groups

SIMPLE IRA Plan Controlled Groups



May need to cover all eligible employees

SIMPLE IRA Plan Employer Restrictions

Exclusive Plan Rule



Cannot maintain other retirement plans in which employees currently accrue benefits

100-Employee Limitation

100

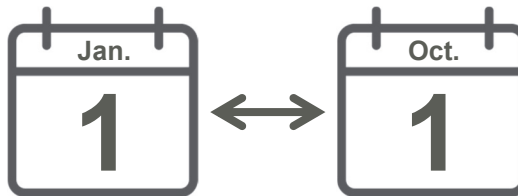
No more than 100 employees who earned at least \$5,000 during preceding calendar year
2-year grace period

SIMPLE IRA Plan Employer Restrictions



Must maintain on calendar year

Must establish between



Employer must sign plan documents

Establishing a SIMPLE IRA Plan



Form 5305-SIMPLE (DFI)

- Same financial organization must receive all SIMPLE IRA contributions
- Financial organization must provide at least 1 investment employees may transfer from with no penalties or fees

Form 5304-SIMPLE (Non-DFI)

- Employees choose where to establish SIMPLE IRAs
- Financial organizations have more flexibility in charging fees for SIMPLE IRA transfers

Prototype Plan Document

- Provides additional flexibility
- IRS approval letter

SIMPLE IRA Plan Employee Eligibility

Employee Eligibility Requirements	
Employers <i>may</i> require	Maximum Restriction
Years of Service	Earned \$5,000 in compensation during any 2 preceding calendar years and reasonably expected to earn \$5,000 in current year
May exclude union employees where retirement benefits were part of the bargaining agreement	
May exclude nonresident aliens with no U.S. income	
May exclude leased employees	



**Matching
Contributions**

2%

**Nonelective
Contributions**

SIMPLE IRA Plan Employer Contributions

- Dollar-for-dollar up to 3% of compensation
 - Only employees who defer receive
 - Reduced match (not less than 1%) in any 2 of 5 years
-
- 2% of each eligible employee's compensation
 - Even employees earning at least \$5,000 who don't defer
 - Compensation cap of \$280,000 for 2019

Determining the Contribution Formula Example

Overlook Company has 25 employees and all are eligible.

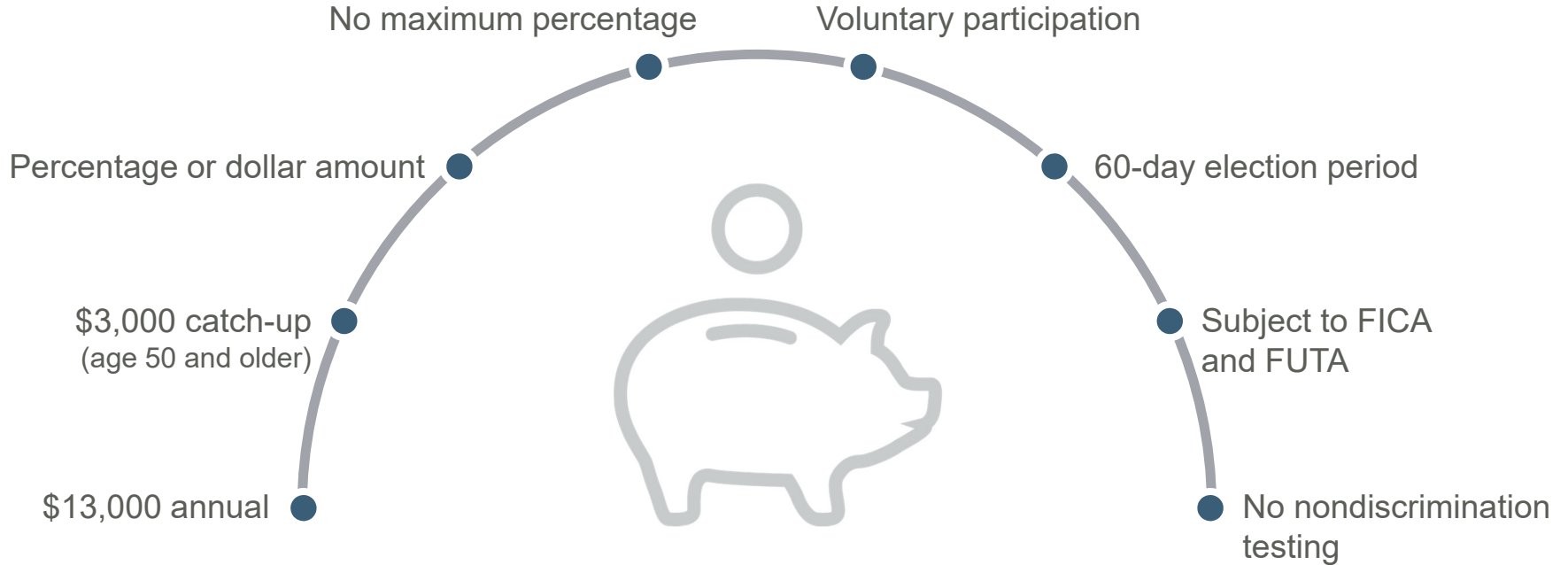
Only 10 employees choose to defer.

3% match may be more cost effective because they only have to provide match to deferring 10 employees.

If Overlook decided to make 2% nonelective contribution, it would need to make to all 25 eligible employees—even those who do not defer.



SIMPLE IRA Plan Employee Contributions





SIMPLE IRA Plan Contribution Deadline

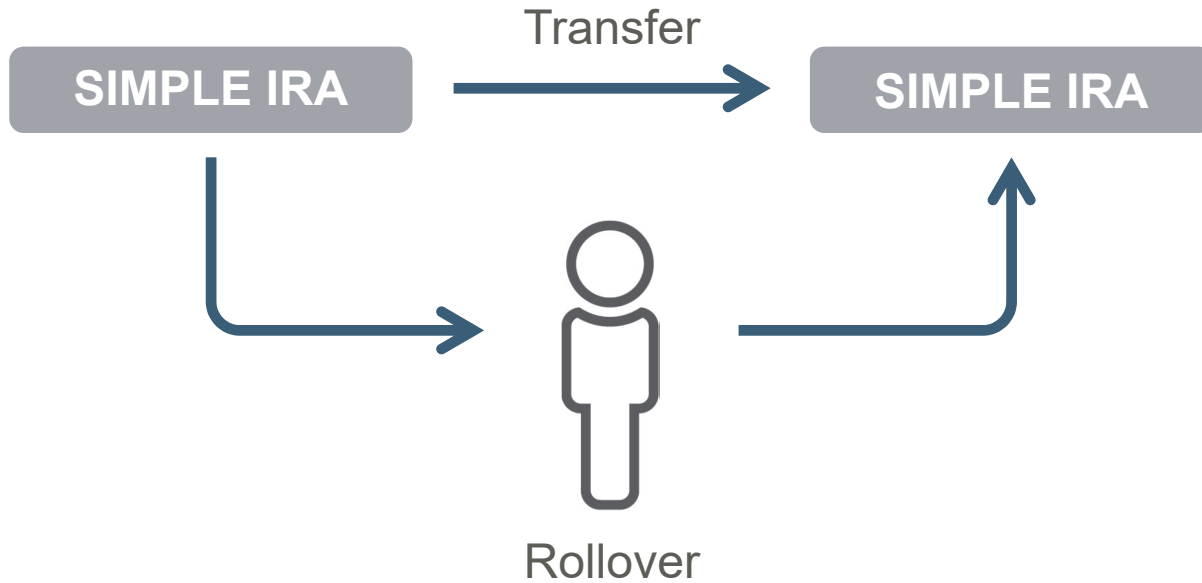
Employee Deferral

- General rule
- Safe harbor rule

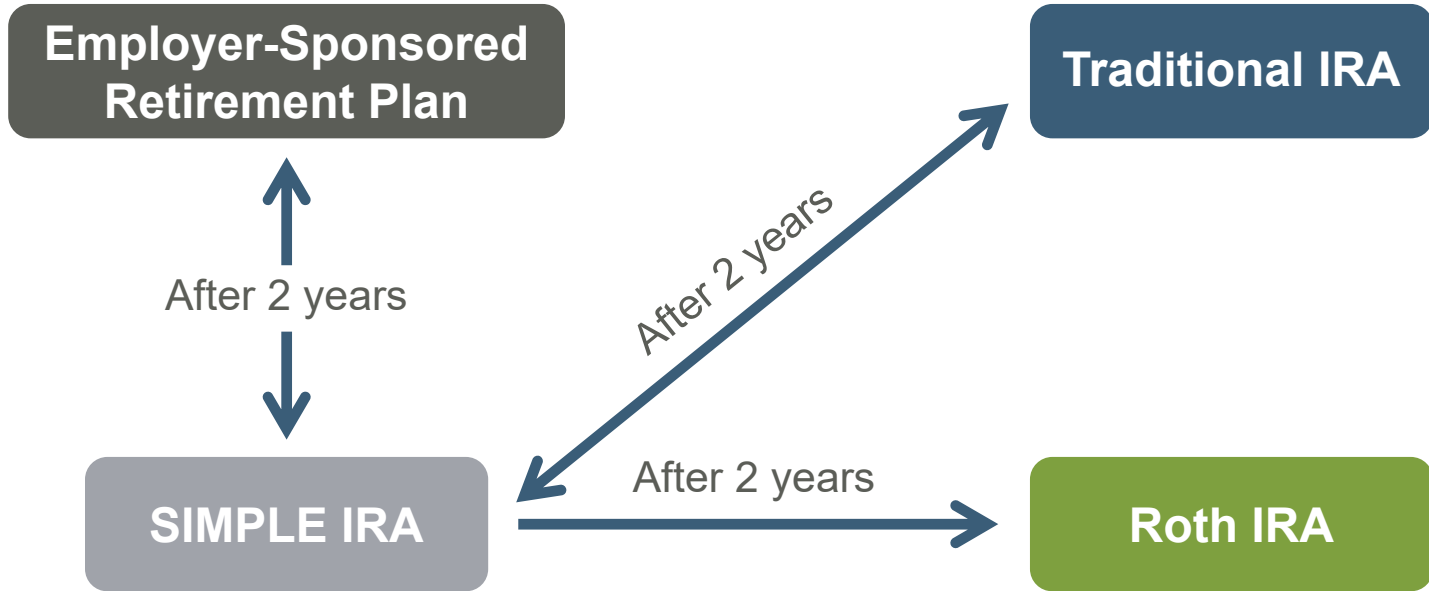
Employer Contribution

- Employer's tax filing deadline, plus extensions

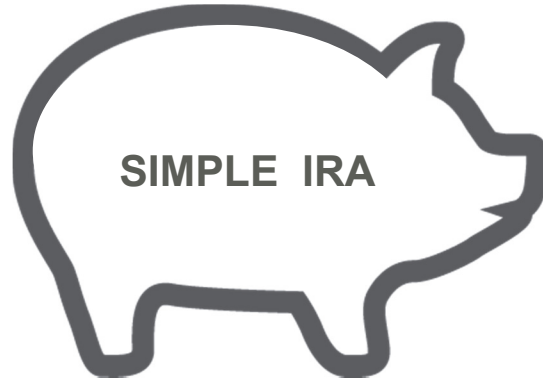
SIMPLE IRA Plan Portability



SIMPLE IRA Plan Portability



SIMPLE IRA Plan Distributions

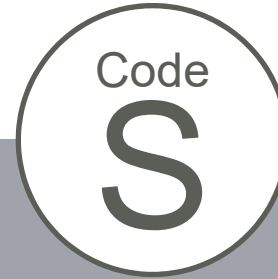


Similar distribution and reporting rules
as Traditional IRAs

SIMPLE IRA Plan Distributions



25% penalty tax
in first 2 years
unless exception



Under age 59½
in first 2 years

SIMPLE IRA Plan Reporting

- FMV statement – January 31
- RMD statement – January 31
- Account statement – January 31
- Form 1099-R – January 31
- Form 5498 – May 31



Reporting SIMPLE IRA Plan Contributions

2020 VOID CORRECTED

TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code		1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a) \$	OMB No. 1545-0747 <div style="font-size: 2em; font-weight: bold; text-align: center;">2019</div>	IRA Contribution Information		
TRUSTEE'S or ISSUER'S TIN PARTICIPANT'S TIN		2 Rollover contributions \$	Form 5498	Copy A For Internal Revenue Service Center File with Form 1096.		
PARTICIPANT'S name		3 Roth IRA conversion amount \$	4 Recharacterized contributions \$			
Street address (including apt. no.)		5 FMV of account \$	6 Life insurance cost included in box 1 \$	For Privacy Act and Paperwork Reduction Act Notice, see the 2019 General Instructions for Certain Information Returns.		
City or town, state or province, country, and ZIP or foreign postal code		7 IRA <input type="checkbox"/> SEP <input type="checkbox"/> SIMPLE <input type="checkbox"/> Both IRA <input type="checkbox"/>	8 SEP contributions \$			9 SIMPLE contributions \$
Account number (see instructions)		10 Roth IRA contributions \$	11 Check if RMD for 2020 <input type="checkbox"/>			
		12a RMD date \$	12b RMD amount \$			
		13a Postponed/late contrib. \$	13b Year	13c Code		
		14a Repayments \$	14b Code			
		15a FMV of certain specified assets \$	15b Code(s)			

Form 5498 Cat. No. 50010C www.irs.gov/Form5498 Department of the Treasury - Internal Revenue Service

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Box 9 = Report SIMPLE salary deferrals and employer contributions for year in which they were made.

SIMPLE IRA Plan Deferral Notice



Ability to begin or
change deferrals



Includes summary
description



Right to select
financial organization
(non-DFI employees)

SIMPLE IRA Plan Summary Description

Employer's and
financial organization's
name and address



Eligibility rules
and benefits



Summary
Description

Election timing
and method

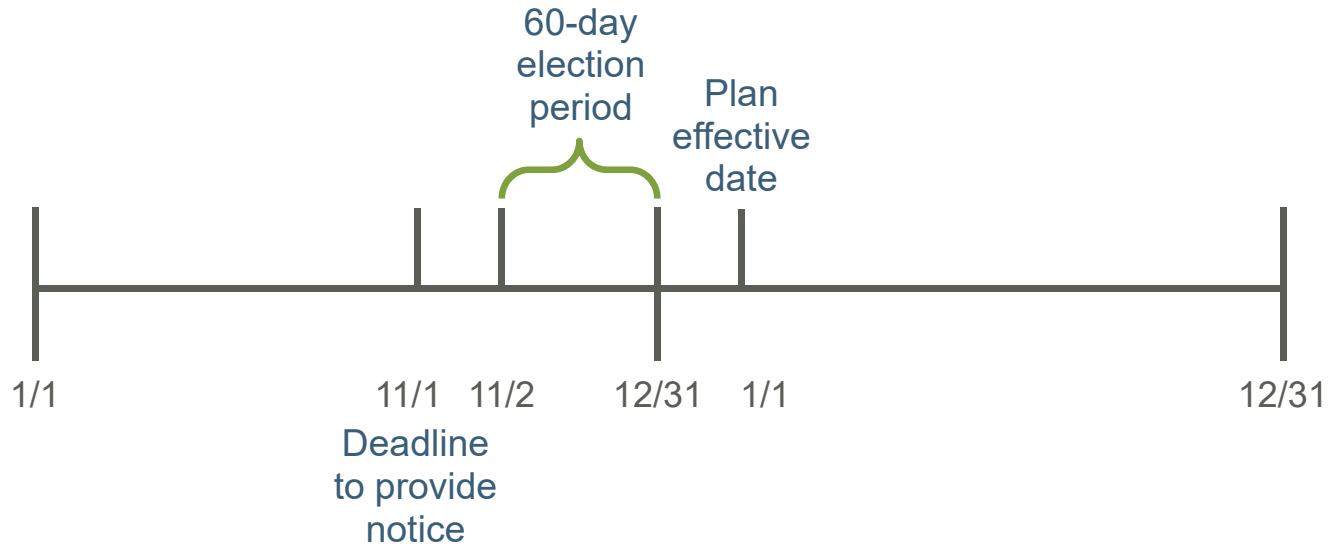


Withdrawal
procedures and
effects



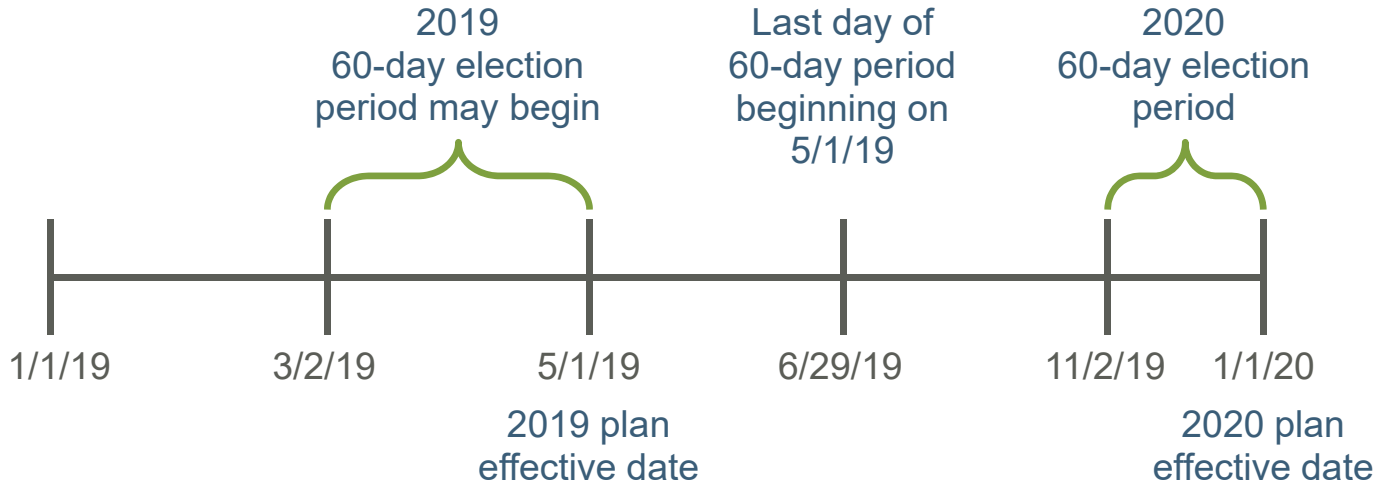
SIMPLE IRA Plan Summary Description Deadline

Provide with deferral notice by November 1



SIMPLE IRA Plan Summary Description Deadline

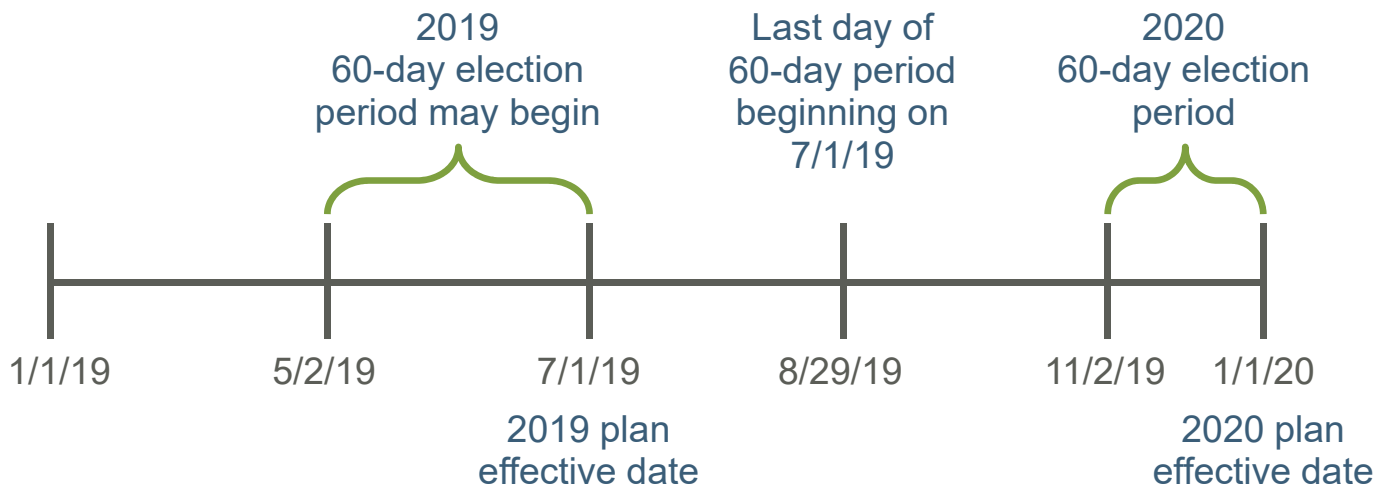
Exception if employer establishes plan during year or employee first becomes eligible after January 1



Summary Description Deadline Example

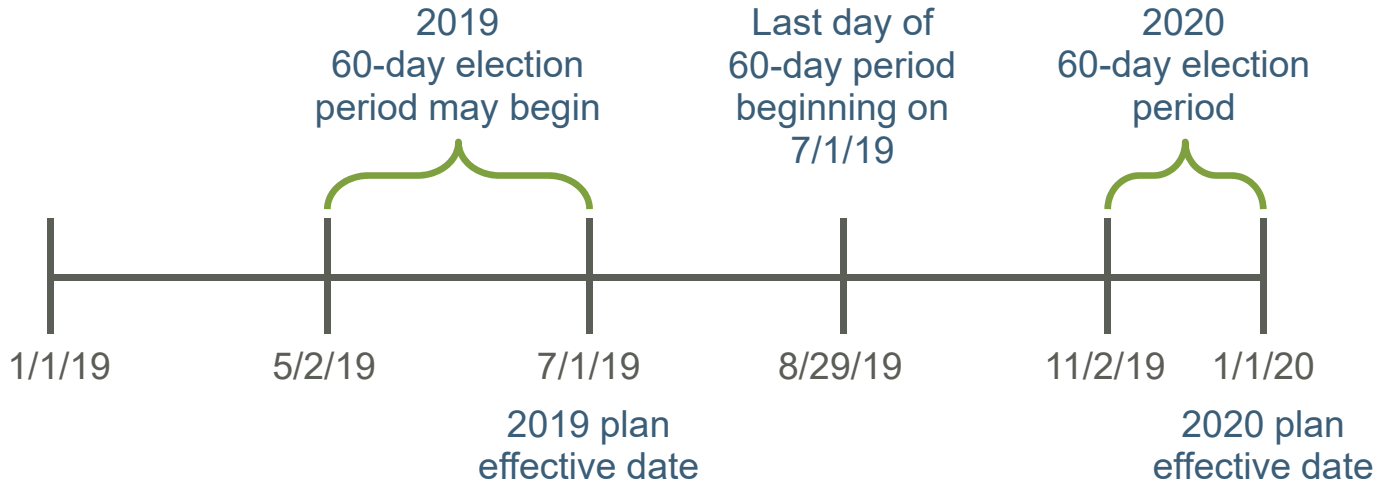
Osbourne and Parker establishes SIMPLE IRA plan effective 7/1/2019

60-day election period may begin no earlier than 5/2/2019, and must begin no later than 7/1/2019



SIMPLE IRA Plan Summary Description Deadline

Because the plan is effective 7/1/2019, each eligible employee can make contributions into the SIMPLE IRA plan on July 1, even if the 60-day election period has not expired by July 1.



SIMPLE IRA Plan Summary Description Penalties

\$50

Notice 98-4

Reasonable cause

Create agreement

Plan Comparison

	SEP Plan	SIMPLE IRA Plan
Employer Eligibility	Any employer	Any employer with 100 or fewer employees earning at least \$5,000 in previous year, and does not currently maintain another retirement plan
Plan Establishment	<p>May use IRS Form 5305-SEP, prototype, or individually designed document</p> <p>Employees establish Traditional IRA with financial organization to receive contributions</p>	<p>May use IRS Forms 5304-SIMPLE or 5305-SIMPLE, a prototype, or individually designed document</p> <p>Employees establish SIMPLE IRA with financial organization to receive contributions</p>

Plan Comparison

	SEP Plan	SIMPLE IRA Plan
Employee Eligibility	<ul style="list-style-type: none">• Age 21• Worked 3 of 5 previous years• \$600 for 2019	<ul style="list-style-type: none">• \$5,000 in any 2 previous years• \$5,000 in current year
Employer Contributions	<ul style="list-style-type: none">• 25% compensation up to \$56,000 for 2019	<ul style="list-style-type: none">• 3% match• Possible reduced match in 2 of any 5-year period• 2% nonelective
Employee Contributions	<ul style="list-style-type: none">• No employee deferrals	<ul style="list-style-type: none">• \$13,000 deferral (2019)• Catch-up \$3,000 (2019)

Plan Comparison

	SEP Plan	SIMPLE IRA Plan
Distributions	Distributions permitted anytime subject to income tax and early distribution penalty taxes	Distributions permitted anytime subject to income tax and early distribution penalty taxes
Employer Reporting	No 5500 reporting for employer	No 5500 reporting for employer
Financial Organization Reporting	Account statement, FMV statement, RMD statement, Form 1099-R, Form 5498	Account statement, FMV statement, RMD statement, Form 1099-R, summary description, and Form 5498

SEP and SIMPLE IRA Plans Exercise

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Questions?

Thank you for attending

Employer Options: SEP and SIMPLE IRA Plans

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