

About The Universal Simplified Employee Pension Plan

WHAT IS A SEP PLAN?

A simplified employee pension (SEP) plan is a type of retirement plan which allows you, the Employer, to provide an important benefit to the Employees of your business (including yourself if you perform services for the business). An “employer” may be a sole proprietor, partnership, or corporation. Amounts you contribute for your Employees under the SEP Plan are deposited into your Employees’ Traditional IRAs.

WHAT PLAN OPTIONS ARE AVAILABLE TO ME?

Under this SEP Plan, you can have either or both of the following:

- a “basic” SEP plan where you make traditional Employer contributions, and
- a “salary deferral” SEP plan where your Employees defer a portion of their pay into the Plan. Note, however, that only certain Employers can maintain a salary deferral SEP plan, as explained below.

SEP PLAN HIGHLIGHTS

Tax Advantages: SEP plan contributions you make to your own IRA and your Employees’ IRAs are tax deductible to you, the Employer. Because SEP plan contributions are made to an IRA, all earnings are tax-deferred, meaning the earnings are not taxed until they are withdrawn from the IRA. In addition, a SEP plan helps you attract and retain quality Employees while you help meet the increasing need for financial security at retirement.

Eligibility Requirements: Not all Employees have to be covered under a SEP plan. At your option, you can exclude Employees who have not reached age 21, those who have not worked for you during at least three of the immediately preceding five years, and those who earn less than \$600 (2017 and 2018) per year. (This amount is subject to cost-of-living adjustments.) In addition, you may exclude Employees who are nonresident aliens, certain union members, and acquired Employees (during a transition period only).

Contributions: This Plan allows you to make an Employer contribution using either a discretionary or mandatory contribution formula. If you allow Employees to make salary deferral contributions, each Employee can specify the percentage of pay he or she wants you to withhold and contribute to the Plan. The maximum total contribution (Employer discretionary plus Employee Salary Deferral) which can be made each year for any Employee is 25 percent of Compensation or \$40,000 (\$54,000 for 2017 and \$55,000 for 2018) (this amount is subject to cost-of-living adjustments), whichever is less.

You have until the due date for filing your business’s tax return (plus extensions) to make Employer contributions to your Plan.

Place of Deposit: All contributions made under the Plan must be deposited directly into each eligible Employee’s IRA.

Integration: This Plan allows you to integrate your contributions with Social Security under the “permitted disparity” rules. If your Plan is integrated, contributions made for higher paid Employees may be greater (as a percentage of their pay) than contributions made for lower paid Employees.

Distributions: Once SEP plan contributions are made, the normal IRA rules apply. For example, all earnings are tax-deferred until they are withdrawn from the IRA and required minimum distributions must begin by April 1 of the year following the year the IRA owner reaches age 70½.

WHAT ARE THE RULES FOR SALARY DEFERRAL SEP PLANS?

NOTE: You may not use this document to establish a new salary deferral SEP plan on or after January 1, 1997. You may, however, use this document to amend and restate a SEP plan in existence prior to January 1, 1997.

The salary deferral option is only available to you for any year if you meet all of the following requirements:

- you had no more than 25 eligible Employees at any time during the previous year; and
- at least 50 percent of all Eligible Employees elect to make salary deferrals; and
- your business is not a tax-exempt organization, a state or local government, or a state or local governmental agency.

Each eligible Employee can elect to have you withhold a portion of pay each year through a payroll deduction arrangement you set up, and contribute it to the SEP Plan on the Employee’s behalf. The Plan calls the amounts Employees contribute “Elective Deferrals.” The maximum amount that may be contributed is \$18,000 for 2017 and \$18,500 for 2018. (This limitation may be adjusted for cost-of-living increases.) Employees who will attain age 50 on or before the end of the calendar year may make an additional contribution of \$6,000 for 2017 and 2018. (This limitation may be adjusted for cost-of-living increases.)

Elective Deferrals are pretax contributions. This means that Employees do not pay federal (and in most cases, state) income tax on their Elective Deferrals, nor do you withhold income taxes from those contributions. Note, however, that Elective Deferrals are considered wages for Social Security and federal unemployment tax purposes.

The Elective Deferrals of certain highly paid Employees (known as “highly compensated employees” under the tax laws) may be limited by the average percentage of pay contributed by all other Employees. To determine if highly compensated employees’ Elective Deferrals are within these limits, a test known as the Actual Deferral Percentage (ADP) test must be performed. You can obtain a worksheet to help you perform the ADP test from the financial organization which sponsors this prototype SEP Plan.

WHAT ABOUT PLAN SET UP?

A SEP plan is easy to set up and administer. As the Employer, you have until the due date for your business’s tax return (plus extensions) to set up a SEP plan. To establish a SEP plan, you must sign an Adoption Agreement. Once the Plan is set up, all eligible Employees (including yourself) establish IRAs to receive the SEP plan contributions. If your Plan allows Employees to make Elective Deferrals, all eligible Employees must complete and sign a *Salary Reduction Agreement* to indicate the percentage of pay they wish to contribute to the Plan.

Maintaining a SEP plan is also easy. Unlike other qualified retirement plans, no additional reporting is required. You simply take a deduction on your tax return for the SEP Plan contributions and notify Employees of the contribution. If you maintain a salary deferral SEP plan, you must periodically perform the ADP test.

EMPLOYEE COMMUNICATIONS

SEP Summary for Employees: If you have Employees, complete the *SEP Summary for Employees* in accordance with the elections you made on the Adoption Agreement. Provide each Employee with a completed copy.

Employee Information Booklet: If you have Employees, provide each Employee with an *Employee Information Booklet*, whether or not he or she is currently eligible to participate in this SEP Plan.

Establish IRAs: Ensure all participating Employees have established IRAs. If not, you may do so on their behalf.

Salary Reduction Agreement (for salary deferral SEP plans only): If your Plan has a salary deferral option, have all eligible Employees complete and sign a *Salary Reduction Agreement*.

SUMMARY

If you are interested in establishing a SEP plan, consult your tax and legal advisors for guidance in selecting the plan features which best suit your business’s needs. Once you are ready to adopt a SEP Plan, refer to the enclosed instructions for completing these documents and properly establishing your Plan.