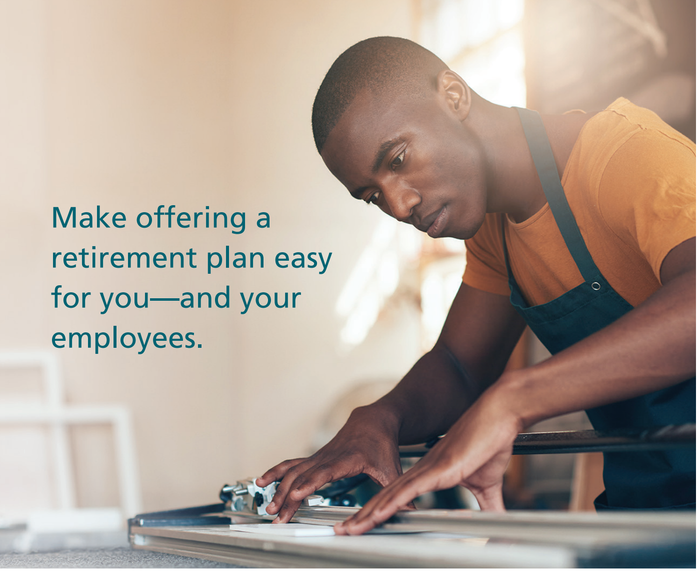

Reluctant to have a retirement plan because of the cost and complexity of typical employer-sponsored plans? SEP, SIMPLE IRA, and Individual(k) plans are different. They are easier to administer and less expensive to maintain.

Simplified employee pension (SEP) plan

- Contributions are made to participants' Traditional IRAs
- Employer contributions are deductible by the employer
- Employer contributions are always discretionary

Savings incentive match plan for employees of small employers (SIMPLE) IRA plan

- Contributions are made to participants' SIMPLE IRAs
- Employer contributions are deductible by the employer
- Employer contributions are required each year

Individual(k) plan

- Contributions are made to participants' Individual(k) plan accounts
- Contributions (except Roth deferrals) are deductible
- Contributions are always discretionary

Be sure to talk with your competent tax or financial advisor about which plan is right for your business.

For More Information

We'd be happy to answer your SEP, SIMPLE IRA, and Individual(k) plan questions.

659 (11/2024)

There's a plan for your business.

Discover the three employer-sponsored retirement plans geared for small- to mid-size businesses.

Knowing the features and benefits of each plan can help you determine which one best fits your business.

SEP Plan

A SEP plan is available to all types of businesses, including tax-exempt entities and state and local governments, but is ideal for self-employed individuals and small businesses.

Eligibility

As an employer, you may set the following employee eligibility requirements as long as they apply to all employees, including you. (You can also choose to be less restrictive or not apply any restrictions.)

- Employees must be at least age 21.
- Employees must have worked three of the immediately preceding five years.
- Employees must earn at least $750 in compensation for 2024 and for 2025.
- Certain nonresident aliens and union employees may be excluded from the plan.

To adopt a SEP plan, you have until the due date, including extensions, for filing your business's federal tax return for the tax year that you want to start the plan. You must sign a written agreement; provide employees information about the plan; and have each eligible employee establish a Traditional IRA* to receive SEP plan contributions (or establish one for them if they won't).

Contributions

Only employer contributions are allowed in a SEP plan and they must be made on behalf of all eligible employees. The deadline to make—and deduct—contributions each year is your business's federal tax return due date, including extensions.

The annual contribution limit per employee is the lesser of

- 25 percent of the employee's compensation (up to a defined compensation cap) or
- $69,000 for 2024 ($70,000 for 2025).

SEP plan contributions and earnings are tax-deferred and subject to the same rules as Traditional IRAs, especially when moving, withdrawing, or converting the assets.

*The SECURE 2.0 Act of 2022 allows employers to provide employees the option of treating SEP, SIMPLE, and employer 401(k) employer and employee contributions on a Roth basis, effective 2023 and later tax years. However, at the time of this writing, additional guidance had not been released to address the distribution rules and portability rules of Roth SEP and SIMPLE contributions.

SIMPLE Plan

A SIMPLE IRA plan allows both you and your employees to make plan contributions—without complicated testing or special reporting.

Eligibility

As an employer, you qualify to have a SIMPLE IRA plan if you have 100 or fewer employees who received $5,000 or more in compensation for the prior year, and you do not offer any other employer-sponsored retirement plan.

Your employees generally qualify to participate in the plan if they earned at least $5,000 in any two prior years and can be expected to earn at least $5,000 in the current year. You may set less restrictive eligibility requirements, and may exclude certain nonresident aliens and union employees from the plan.

A new plan is established by completing a SIMPLE IRA plan document and retaining a copy with your business records—generally by October 1 of the year you want to start the plan. You'll need to timely give employees a summary description and participation notice, and they'll need to make salary reduction elections and open SIMPLE IRAs to receive contributions.

Contributions

You generally must make either a three percent matching contribution for employees who make deferrals or a two percent contribution for all eligible employees, regardless of whether they defer.

Employees may defer on a pretax basis up to $16,000 for 2024 and $16,500 for 2025 into their SIMPLE IRAs,* plus, if they are age 50 or older, an additional $3,500 for 2024 and for 2025. Beginning in 2025, the maximum catch-up contribution limit is $5,250 (indexed) for individuals age 60, 61, 62, and 63. These contributions and any earnings are tax-deferred.

Both employer contributions and employee deferrals are fully vested and are available to the employee at any time. If withdrawn before age 59½, a 25 percent or 10 percent early distribution penalty tax may apply, depending on how much time has passed since the first plan contribution (unless a penalty tax exception applies).

Individual(k) Plan

An Individual(k) plan is a cost-effective, owner-only 401(k) profit sharing plan that offers benefits not available with SEP and SIMPLE plans, such as higher contribution limits, Roth deferrals, and loans.

Eligibility

An Individual(k) plan is most appropriate for sole proprietors, family businesses (without nonspouse employees), partnerships, one-shareholder corporations, limited liability companies, and businesses with excludable common-law employees.

Even if eligible employees are hired, an Individual(k) plan will continue to function as a 401(k) plan, but recordkeeping duties and administration expenses may increase, and the plan will become subject to nondiscrimination testing.

To start an Individual(k) plan, simply complete and sign the appropriate plan documents by your business's tax return due date, plus extensions. This is the tax year for which you intend to take a deduction on the contributions.

Contributions

As the business owner, you can choose each year whether to make a deductible profit sharing contribution of up to 25 percent of compensation.

As a participant, you may defer up to 100 percent of your compensation into the plan on a pretax basis or, if the plan allows, on a Roth after-tax basis, without going over the annual deferral limit ($23,000 for 2024 and $23,500 for 2025). If you are age 50 or older, you can defer even more in catch-up contributions. Beginning in 2025, the maximum catch-up contribution limit is $11,250 (indexed) for individuals age 60, 61, 62, and 63.

Total contributions (profit sharing contributions plus salary deferrals) for one participant in an Individual(k) plan cannot exceed 100 percent of compensation or $69,000 for 2024 ($70,000 for 2025), whichever is less. Catch-up contributions, however, increase this limit.

Individual(k) plan distributions require a "triggering event" and generally are taxable (unless you've made Roth contributions).