



## About The SEP 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.

### 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plan contributions are made to an IRA, all earnings are tax-deferred, meaning the earnings are not taxed until they are withdrawn from the IRA.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 (2020) and \$650 (2021) 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:** Each year you may decide if you want to make a SEP plan contribution. The maximum contribution which can be made each year for any Employee is 25 percent of Compensation or \$57,000 for 2020 and \$58,000 for 2021 (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 contributions to your Plan.

**Place of Deposit:** All contributions made under the Plan must be deposited 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 For example, all earnings are tax-deferred until they are withdrawn from the IRA and required minimum distributions must begin by April 1 of the year following the year the IRA owner reaches age 70½ (age 72 if the IRA owner was born on or after July 1, 1949).

### 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.

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.

### 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* sheet, 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.

### 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.



## Standard Simplified Employee Pension Plan Instructions for Completing Adoption Agreement

These instructions are designed to help you, the Employer, along with your attorney and/or tax advisor, establish your SEP Plan. The instructions are meant to be used only as a general guide and are not intended as a substitute for qualified legal or tax advice.

### ADOPTION AGREEMENT

If you wish to have us, the financial organization sponsoring this prototype Plan, help you fill out the Adoption Agreement, we will do so. However, we recommend that you obtain the advice of your legal or tax advisor before you sign the Adoption Agreement.

### EMPLOYER INFORMATION

Fill in the requested information.

#### SECTION 1. ESTABLISHMENT AND PURPOSE OF PLAN

There are no elections required for Section One. Refer to the Basic Plan Document for information regarding this section.

#### SECTION 2. EFFECTIVE DATES

This SEP Plan is either a new Plan (an initial adoption) or an amendment and restatement of an existing SEP Plan.

If this is a new SEP Plan, check Option A and fill in the Effective Date. The Effective Date is usually the first day of the Plan Year for which this Adoption Agreement is signed. For example, if an Employer establishes a 2021 calendar year plan (up until the Employer's tax filing deadline, including extensions), the Effective Date would be January 1, 2021.

If the reason you are adopting this Plan is to amend and replace an existing SEP plan, check Option B. The existing SEP plan which will be replaced is called a "Prior Plan." You will need to know the Effective Date of the Prior Plan. The best way to determine its Effective Date is to refer to the Prior Plan adoption agreement. The Effective Date of this amendment and restatement is usually the first day of the Plan Year in which the Adoption Agreement is signed.

#### SECTION 3. ELIGIBILITY AND PARTICIPATION

NOTE: Section Three should be completed even if you do not have Employees.

Within limits, you as the Employer can specify the number of years your Employees must work for you and the age they must attain before they are eligible to participate in this Plan. Note that the eligibility requirements which you set up for the Plan also apply to you.

Suppose, for example, you establish a service requirement of three of the immediately preceding five years and an age requirement of 21. In that case, only those Employees (including yourself) who have worked for you for three of the immediately preceding five years and are at least 21 years old are eligible to participate in this Plan.

##### Part A. Service Requirement

Fill in the number of years of service required. This number must be either 0, 1, 2, or 3.

If Employees will be given credit for service with a predecessor Employer, fill in the name of the predecessor Employer.

##### Part B. Age Requirement

Fill in the age an Employee must attain (no more than 21) to be eligible to participate in the Plan.

##### Part C. Employees Employed as of Effective Date

Check Option 1 if Employees employed as of the Effective Date of the Plan who have not met the Plan age and service requirement will be deemed to have met those requirements. If not, check Option 2.

##### Part D. Class of Employees Eligible to Participate

1. Generally, you are permitted to exclude Employees covered by the terms of a collective bargaining agreement (e.g., a union agreement) where retirement benefits were bargained for. If you wish to exclude those Employees, check the first box under Section Three, Part D.
2. You are permitted to exclude those Employees who are nonresident aliens with no U.S. income. If you wish to exclude those Employees, check the second box under Section Three, Part D.
3. You are permitted to exclude those Employees that are classified as Acquired Employees due to an acquisition or similar transaction described in the Code (during a transition period). If you wish to exclude those Employees, check the third box under Section Three, Part D.
4. You are permitted to exclude those Employees who have received less than \$600 for 2020 and \$650 for 2021 (indexed for cost-of-living adjustments) of compensation during the plan year. If you want to exclude those Employees, check the fourth box under Section Three, Part D.

#### SECTION 4. CONTRIBUTIONS AND ALLOCATIONS

##### Part A. Contribution Formula

###### Option 1. Discretionary Formula

Check this option if you want this SEP Plan to allow for flexible contributions that will be determined from year to year.

###### Option 2. Fixed Percent of Profits Formula

Check this option if you want this SEP Plan to require a fixed contribution from year to year. Fill in the applicable contribution percentage and dollar amount.

**Part B. Allocation Formula**

Once the contribution amount has been decided for a Plan Year, it must be allocated among the Participants in the Plan. The contribution can be allocated using either a pro rata formula, flat dollar formula, or an integrated formula. Check either Option 1, 2, or 3.

**Option 1. Pro Rata Formula**

Check this option if you wish to have the contribution allocated to all qualifying Participants based on their Compensation for the Plan Year.

**Option 2. Flat Dollar Formula**

Check this option if you wish to have the same dollar amount allocated for each Participant.

**Option 3. Integrated Formula**

Check this option if the plan is to be integrated. Generally, integration is a method of giving some Participants in the plan an extra contribution allocation. Because of the complexity of integration, you should consult your tax advisor regarding this issue.

**SECTION 5. COMPENSATION AND PLAN YEAR ELECTIONS**

This Section allows you to define Compensation for purposes of Employer Contributions to the Plan, and also the time period the Plan will use to determine the Plan Year.

**Part A. Compensation**

Select either Option 1, 2, or 3 depending on how the Plan will define Compensation for purposes of Employer Contributions. Refer to the Definitions Section of the Plan for a description as to the Code requirements for each of these choices.

**Part B. Plan Year**

The Plan allows you to determine the Plan Year based on the 12-consecutive month period that coincides with your taxable year, the calendar year, or another 12-consecutive month period. Select the appropriate option that will define the Plan Year.

**SECTION 6. AMENDMENT OR TERMINATION OF PLAN**

There are no elections required for Section Six. Refer to the Basic Plan Document for information regarding this section.

**SECTION 7. EMPLOYER SIGNATURE**

An authorized representative of the Employer must sign and date the Adoption Agreement. In addition, the Prototype Sponsor must provide its name, address, and telephone number.

**OTHER ITEMS**

- Provide an *Employee Information* sheet and a completed *SEP Summary for Employees* to each Employee.
- Make sure that all eligible Employees have established IRAs.