

Need a Simple Retirement Plan? Check Out a SEP-IRA

Two critical issues facing many small business owners are time and cash flow. Shortages of either, or both, of these commodities often result in neglecting the advantages of having a company retirement plan. In today's environment, a company retirement plan can become a valuable asset for the owner and employees of the company. Along with providing a way for the owner to accumulate wealth, a retirement plan can help to attract, retain and motivate employees. The key is finding the right type of plan.



The SEP-IRA

A Simplified Employee Pension Plan, often referred to as a SEP, is a retirement plan specifically designed for self-employed people and small business owners. SEPs can provide retirement benefits for owner-employees and other employees without the high start-up and ongoing operating cost normally found with traditional plans.

For the Employer

Almost every employer can set up a SEP. Sole proprietors, partnerships, and corporations can use them. There is no limit to the number of employees the business can cover with a SEP. The business may even establish a SEP if the owner is the sole employee. SEPs are easy to establish and have minimal paperwork requirements. SEPs also have very flexible contribution requirements. Each year the company decides whether to make a SEP contribution.

For the Employee

Using a SEP, a business can set aside as much as 25% of each participant's net pay annually to a maximum of \$51,000 in 2013. Employees are not able to make contributions to their SEP. The earnings on the funds within the SEP are tax deferred and can become a significant part of the employee's retirement nest-egg.

Some Details

1. Eligibility — Eligibility must be offered to all employees who are at least 21 years old, have been employed by the business in at least 3 of the last 5 years and have earned at least \$500 in a year. There are also some exclusions for employees covered by a collective bargaining agreement and resident aliens.

2. Vesting — There is immediate 100% vesting once company contributions have been made.
3. Timing of contributions — The employer can decide whether or not to make a contribution each year. Contributions must be made by the time the company tax return is filed.
4. Setting up SEPs — The company must complete IRS Form 5305-SEP and give a copy to each employee along with a summary plan description. All participants must have an IRA to receive their contribution.
5. Investment options — Since the accounts are really just IRAs, each participant makes their own investment decisions.

Summary

Be sure to speak with your financial institution or advisor to learn more details on how a SEP can add value to your business. The right type of retirement plan can help your business grow and prosper by providing employees an additional reason to work hard and remain loyal. It also can help you, the owner, achieve your financial objectives.