Simplified Employee Pension Plans (SEP-IRA)

CAN YOU AFFORD TO RETIRE?

Many Americans have put off saving for retirement. Some consider themselves too young to worry about it. Others believe Social Security will be a primary source to supplement their income during retirement; still others tend to think their employers will take care of it, perhaps by funding a retirement plan.

Recent surveys indicate that the typical Baby Boomer is saving only about one-third of what will be required to comfortably retire. In cases where no one in the household is covered by an employer sponsored retirement plan, the savings rate drops to about one-fifth of the total amount required to comfortably retire.

Small business owners, as well as their employees, are often at a greater disadvantage. Due to the large demands on time, capital, and energy, many business owners have delayed planning for retirement. For some, typical retirement plans have been deemed too costly or too restrictive. Even when established, many plans are required to pass strict anti-discrimination tests.

HIGHLIGHTS OF A SEP-IRA

A SEP-IRA allows an employer to make the same tax-deductible contributions as other qualified plans, with little or no administration or IRS reporting and with greatly reduced costs. The contributions are made directly into the plan participant's SEP-IRA. They can even be co-mingled with an existing Traditional IRA. The employer's contributions are entirely flexible from year to year and can be skipped in a given year with no penalty.

The contribution limits are like those of a Profit Sharing Plan: up to the lesser of 25% of compensation or $69,000 (2024 COLA limit). A major difference is that the plan does not have a vesting schedule as other qualified retirement plans may. All contributions are immediately 100% vested and belong to the employee upon deposit. Additionally, all eligible employees must be included, even part-time employees.

- Employer contributions are made into SEP-IRA accounts on behalf of the individual participant
- SEPs may be established and funded up to tax filing deadlines, including extensions
- The employee is immediately 100% vested in company contributions
- Little or no government reporting is required
- SEP administration is minimal
- Part-time employees cannot be excluded
- Contributions are tax-deductible for the employer and neither contributions nor earnings are taxed to participants until distributed. The SECURE Act 2.0 introduced SEP Roth contributions that may be elected by the participant. If the Roth election is made, the amounts contributed would be included in the participant's income, as Roth dollars are considered after-tax contributions.
- SEPs can be established for one year only or can be contributed to year after year
- The employer's investment-related fiduciary responsibility can be greatly reduced
- SEPs are less expensive to establish and maintain than qualified plans. A Davenport Financial Advisor is available to help employees make appropriate investment selections.

To learn more about SEP-IRAs, we invite you to contact the Davenport & Company office nearest you and speak with one of our Financial Advisors.

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The information contained herein has been compiled from a variety of publicly available documents believed to be reliable and is intended to provide information of a general nature. It is not intended to address any particular circumstance. Davenport does not render tax advice or provide any record keeping or reporting for qualified retirement plans. Accordingly, you should consult with your own tax and/or legal professional.

IRAs and other retirement plans may have fees associated with them in addition to costs associated with investing the assets of the IRA or retirement plan. These fees may include, but are not limited to; annual account fees, administrative fees that may include recordkeeping of the plan, legal fees, accounting fees, termination fees, etc. Please consult with your advisor or plan sponsor to learn more about the fees associated with a particular plan.

Updated January 2024