

SEP IRA vs. SIMPLE IRA

A business structured as a sole proprietorship, partnership, limited liability company or corporation can set up either the SEP (Simplified Employee Pension) IRA or the SIMPLE (Savings Incentive Match Plan for Employees) IRA. The business can be structured as either for-profit or not-for-profit.

Both Plans Offer:

- Contributions that are deductible by the business, including contributions from the owner.
- Tax-deferred savings for retirement.
- Benefits to attract and retain employees.
- No IRS testing or IRS Form 5500.
- Relatively low account and administrative cost.

Additional Considerations:

- Part-time employees must be included if they meet eligibility requirements.
- Employees who receive contributions are immediately 100% vested.
- You cannot maintain another qualified plan if you operate a SIMPLE IRA.

	SEP IRA	SIMPLE IRA	
Who Should Consider?	Generally appropriate for a business owner with no employees or a business with fewer than 10 employees	Generally appropriate for businesses with fewer than 20 employees. The plan is not available if there are more than 100 employees. Employer may not sponsor any other plan that calendar year.	
Maximum Employee Eligibility Requirements (Set by Employer)	<ul style="list-style-type: none"> • 21 years old • Employed for three of the preceding five years and earning at least \$600 in the current year 	<ul style="list-style-type: none"> • Cannot be excluded based on age • Earned \$5,000 annually in any two years and expect to earn \$5,000 in the current year 	
Employer Contributions	Employer contributions only Employer contributions are discretionary and can vary from year to year. Maximum contribution is based on the lesser of: <ul style="list-style-type: none"> • 25% of annual compensation,* or • \$55,000 	Employer contributions are required and limited to either: <ul style="list-style-type: none"> • 2% based on the compensation* of each eligible employee; or • Dollar-for-dollar match up to 3% of a participant's compensation 	
Employee Contribution Limits	No salary deferrals for employees	Maximum Salary Deferral	Catch-up Provision for Participants Ages 50 and Older
		\$12,500	\$3,000
Setup Deadline	Business's tax-filing deadline, including extensions	Oct. 1 to allow for current-year contributions	
Contribution Deadline	Business's tax-filing deadline, including extensions	Salary deferrals must be deposited as soon as administratively feasible but no later than 30 days after the end of the month withheld. Matching and nonelective contributions are required by the business's tax-filing deadline, including extensions.	

*Compensation to base contributions is capped at \$275,000.

All dollar limits apply to 2018 and are subject to annual cost-of-living adjustments.

SEP IRA and SIMPLE IRA examples

Owner and Employees - 3% SIMPLE IRA Match					
	SEP IRA		SIMPLE IRA		
	W-2 Compensation	SEP IRA Contribution (25%)	SIMPLE IRA Deferral	3% Match	Total
Mark (Owner)	\$60,000	\$15,000	\$12,500	\$1,800	\$14,300
Mary	\$20,000	\$5,000	\$9,000	\$600	\$9,600
David	\$20,000	\$5,000	\$0	\$0	\$0
Cost for Employee Contribution	—	\$10,000	—	\$600	\$600
Benefit to Owner	—	\$15,000	\$12,500	\$1,800	\$14,300

Owner and Employees - 2% Nonelective SIMPLE IRA Contribution					
	SEP IRA		SIMPLE IRA		
	W-2 Compensation	SEP IRA Contribution (25%)	SIMPLE IRA Deferral	2% Contribution	Total
Mark (Owner)	\$60,000	\$15,000	\$12,500	\$1,200	\$13,700
Mary	\$20,000	\$5,000	\$9,000	\$400	\$9,400
David	\$20,000	\$5,000	\$0	\$400	\$400
Cost for Employee Contribution	—	\$10,000	—	\$800	\$800
Benefit to Owner	—	\$15,000	\$12,500	\$1,200	\$13,700

Owner Earns Significantly More Than Employees					
	SEP IRA		SIMPLE IRA		
	W-2 Compensation	SEP IRA Contribution (25%)	SIMPLE IRA Deferral	3% Match	Total
Susan (Owner)	\$100,000	\$25,000	\$12,500	\$3,000	\$15,500
Jim	\$30,000	\$7,500	\$9,000	\$900	\$9,900
Kevin	\$20,000	\$5,000	\$0	\$0	\$0
Cost for Employee Contribution	—	\$12,500	—	\$900	\$900
Benefit to Owner	—	\$25,000	\$12,500	\$3,000	\$15,500

The above businesses are assumed to be corporations. Contributions for sole proprietorships and partnerships are computed differently.

This information is for educational and illustrative purposes only. Edward Jones, its employees and financial advisors cannot provide tax or legal advice. Please consult your attorney or qualified tax advisor regarding your specific situation.



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