



## SEP IRA

A SEP (Simplified Employee Pension) IRA plan provides you with a simplified method to make contributions toward your own retirement as well as your employees' retirement.

Business owner adopts an SEP Agreement.

The SEP Agreement can be the IRS approved form or a custom document created by the business owner's legal counsel.

Business owner makes contributions directly to a traditional individual retirement arrangement set up for each eligible employee.

Plan must be established as a calendar year plan.

If the business owner elects to use the IRS form rather than create a custom document, each participant receives the same percentage of salary as a contribution.

### Advantages of this strategy:

- No third party administrator is required so there are no administrative fees or IRS filing fees to pay.
- No annual filing is required with the IRS or Department of Labor.

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No bank or credit union guarantee | Not a deposit | Not FDIC/NCUA insured | May lose value | Not insured by any federal or state government agency

Guarantees are dependent upon the claims-paying ability of the issuing company.

If you are a business owner looking for a simple way to save for your own retirement, but also your employees' retirement...

## A SEP IRA may be the solution.

### Here's how it works:

- You, as the business owner, make contributions to the financial institution where the SEP IRA is maintained.
  - Note: The SEP IRA is owned and controlled by the employee.
- The requirement of providing a formal written agreement to employees can be met by adopting the IRS model SEP using Form 5304-SEP. The form can be obtained from the IRS web site at [www.irs.gov](http://www.irs.gov).
  - SEP IRAs can be set up with banks, insurance companies, or other qualified financial institutions.

### Employee Eligibility

- Eligible employees must be 21 years of age or older, have worked for you in at least three of the last five years, and received at least \$750 for 2024 in compensation from you during the calendar year.
- These are maximum eligibility requirements, but you are allowed to use less restrictive eligibility requirements, if desired.
- The following three actions are required during each Annual Election Period as defined in IRS form 5304-SEP. NLG will oversee and provide this notification annually to your employees. If you make any plan changes, you will need to notify NLG 60 days prior to the Annual Election Period.
  - A formal written agreement must be executed by you to provide benefits to all eligible employees.
  - Each eligible employee must receive certain information about the SEP.
  - The SEP must be set up by and for each eligible employee.

### Contributions

- Contributions for your employees cannot exceed the lesser of 25% (or 20% of net earnings for self-employed individuals) of the employee's compensation or \$69,000 for 2024. Compensation over \$345,000 for 2024 cannot be considered when calculating the contribution limit for the employee, with \$69,000 being the maximum contribution for any employee. If you are self employed, consult a tax advisor as allowable contributions can vary.
- Contributions do not have to be made every year. But, if contributions are made, they must be based on a written allocation formula and must not discriminate in favor of highly compensated employees.
- When a contribution is made, it must be made for all participants who have met the eligibility requirements and actually performed personal services during the year for which the contributions are made.
- Life insurance is not allowed in an SEP IRA.

### Distributions

- Distributions are taxed as ordinary income. Withdrawals prior to age 59½ may be subject to a 10% Federal Tax Penalty.

Scan for SIMPLE and SEP IRA  
Plan Implementation Checklist  
or [click here](#).



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This information is not intended as tax or legal advice. Please consult with your Attorney or Accountant prior to acting upon any of the information contained in this correspondence.

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