

# SEP IRAs allow flexible employer-only contributions



Benefits

Highlights

Details

Prospect

Service

## SEP IRAs for any businesses, including sole proprietors

### Benefits

- **Unrestricted access** – Although available to businesses with any number of employees, SEP IRAs often appeal to small businesses with few or no employees.
- **Flexible employer contributions** –
  - Employers have complete discretion about whether to make contributions or not. Contributions are immediately vested.
  - Annual contributions can be up to 25% of compensation or \$66,000,\* whichever is lower.
  - Contributions must be the same percentage of compensation for every eligible employee. See Contributions section below for more details.
- **Easy plan setup and administration** – A third-party recordkeeper, third-party administrator, and annual 5500 and discrimination testing are not required.
- **Lower cost** – Plan setup and annual fees are typically lower than those of 401(k) plans.
- **Tax benefits** – For employers, contributions are tax deductible. For participants, contributions and earnings are not taxed until withdrawn. New plans may be eligible for an annual tax break of \$500 to \$5,000 for 3 years.

### Highlights

SEP IRA

#### Contributions at employer's discretion; no participant contributions

##### Plan service model

Financial professional provides individual and investment advice to each participant

##### Cost per participant

A one-time \$10 setup fee and ongoing \$10 annual fee

##### Pricing

Class A and C shares (commissionable) and Class F-2 (fee-based)

##### Investments

Participants choose from a wide range of American Funds, including the American Funds Target Date Retirement Series®

##### Contributions

- Contributions are optional and may vary at the employer's discretion; participants cannot make contributions
- In general, maximum annual contributions are 25% of the participant's compensation or \$66,000, whichever is lower\*
- Contributions must be the same percentage of compensation for all eligible employees.† Contributions are immediately vested

##### Testing

Top-heavy and 415 testing are required. A plan is top heavy if the combined value of key employee accounts is more than 60% of the total of all accounts. IRS Form 5500 and DOL filings are not required

### Details

COLLAPSE ALL

#### Eligibility

**Eligible employers** – Businesses of any size, including sole proprietors, for-profit and non-profit companies, and government entities.  
**Eligible employees** – Any employee who is 21 or older and has worked for the employer at least 3 of the last 5 years must be included in the plan. Certain employees can be excluded, including:

- Workers with annual earnings under \$750 in 2023
- Union members covered by a collective bargaining agreement
- Nonresident aliens with no source of U.S. income

#### Contributions

- Participant contributions are not allowed.
- Employer contributions can vary or not be made at all, at the employer's discretion. Factors may include the company's profitability, cash flow, etc.
- With the exception of self-employers, the maximum annual contribution is 25% of a participant's compensation or \$66,000,\* whichever is lower. The \$66,000 limit is for 2023 and is subject to cost-of-living adjustments for future years.
- For self-employed individuals, compensation is based on self-employment income minus deductible plan contributions and 50% of self-employment taxes paid.
- Contributions must be the same percentage of compensation for all eligible employees, up to the stated maximums. For example, if an employer decides to make contributions of 5% of compensation, every participant – including business owners – will get a 5% contribution. The contribution percentage is calculated on compensation up to \$330,000 for 2023, which means a 5% contribution would be capped at \$16,500 even if an eligible employee makes more than \$330,000.
- Contributions are immediately vested.

#### Plan administration

**Limited fiduciary responsibility**

- Fiduciary liability is limited because IRAs are set up for each eligible employee, and participants make their own investment choices.
- Sponsors can use Capital Group investment and retirement materials from the SEP IRA section of Forms & Literature to educate employees.

**Plan establishment and funding deadlines**

- For contributions to be made for a tax year, the plan must be established and contributions must be funded by the employer's tax filing deadline, plus extensions.

**SEP IRA from Capital Group, home of American Funds**

- **Employer contributions** – To simplify and expedite the contribution process, employers submit contributions through the [Online Group Investments website](#). The secure site makes it easy for employers to create payroll rosters, contribute directly from bank accounts, access transaction history and update participant information.
- **Participant investments** – Because participants control their accounts, they can monitor their investments and make exchanges and other transactions at any time online or by phone.
- **Aggregating accounts for a lower Class A share sales charge** – American Funds Class A shares are sold with an upfront sales charge. If account assets reach certain levels (breakpoints), a lower or no sales charge may apply. Aggregation of participant accounts in a SIMPLE IRA plan depends on the plan agreement selected by the plan sponsor:
  - **Capital Group prototype agreement:** Because all contributions come to Capital Group, all accounts in the plan can be aggregated when determining sales charges. If the grouped assets reach a breakpoint, all participants benefit from the reduced sales charge. Participant accounts in the plan cannot be aggregated with personal accounts.
  - **Any other plan agreement:** Because contributions may or may not come to Capital Group, accounts in the plan are not aggregated. Instead, a participant's account may be linked with his or her other personal Capital Group accounts.