



SEP vs. 401(k) What is the Better Option?

PensionSpecialist.Net
1954 Howell Branch Rd., Ste. 100
Winter Park, FL 32792
Phone: 888-412-4120
Fax: 321-397-0409
Email: Bill@PensionSpecialist.Net

SEP v 401(k): What is the Better Option?

When advising clients on their optimal planning choices, it's best to thoroughly examine and analyze prior to any recommendation being made. Often, the SEP, or Simplified Employee Pension, is recommended. ***Usually the SEP is actually the worst option for the client!***

Frequently, the reaction to this statement is, "What? How can that be? I'll recommend a SEP because:"

You can download the form for free from IRS.gov.

There are no annual administration fees.

There are no annual filings.

Minimal recordkeeping.

Maximum employer contributions are 25% of payroll, just like a 401(k).

So why is a 401(k) a better option?

In a 401(k), the client can contribute 25% of salary PLUS a \$22,500 salary deferral (2023).

In a SEP, the employer contribution is uniform. In other words, every employee receives the same employer contribution when expressed as a percentage of salary.

In a 401(k), the employer contribution is not uniform, and employer contributions are oftentimes significantly less for employees when compared to the business owner.

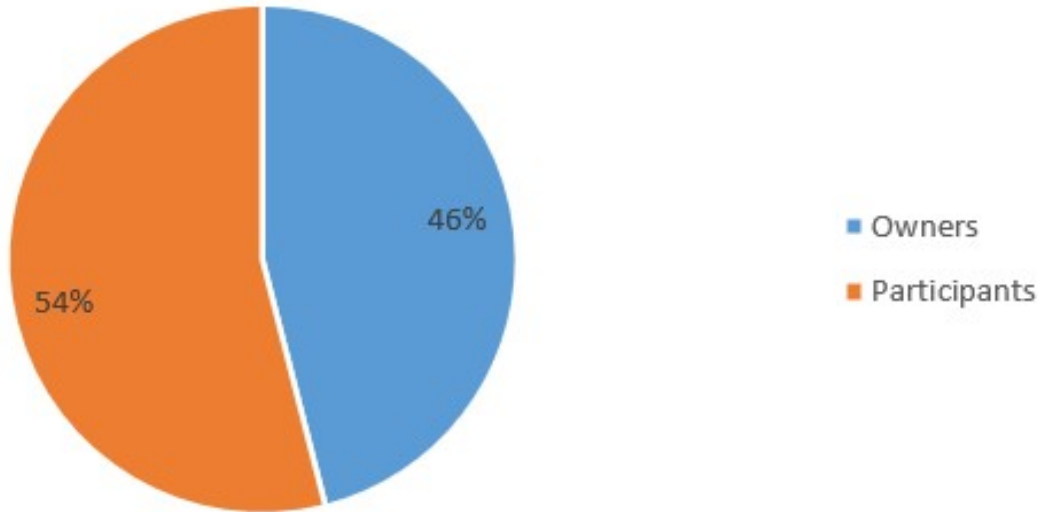
The employer's profit sharing contribution has a six-year graduated vesting schedule. Employer SEP contributions are immediately vested.

Employees are eligible for a SEP if they have provided services in three of the last five years and earned \$750 or more.

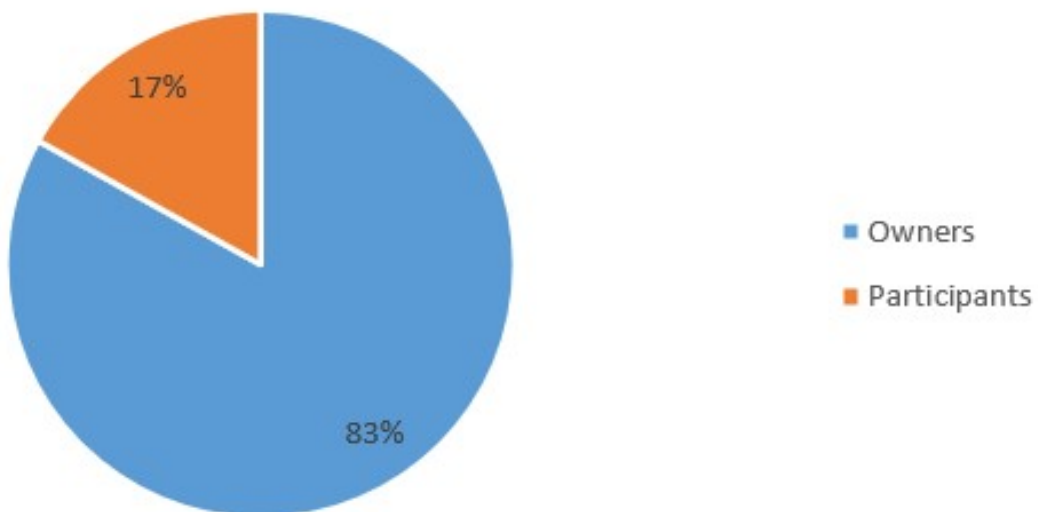
		SEP	401k
Employer Contributions		Y	Y
Employee Salary Deferrals		N	Y
Roth Contributions		N	Y
Catch-Up Contributions		N	Y
Uniform Employer Contributions		Y	N
Vesting of Employer Contribution		Immediate	Gradual over six years
Annual Regulatory Filings		N	Y
Can Have with a Cash Balance Plan		N	Y

SEP vs. 401(k) for the Plan Year Ending December 31, 2023							
Name	Compensation	SEP Contribution	% of Total	401(k) Contribution	% of Total	401(k) Advantage	
HCE	Owner 1	100,000.00	25,000.00	23%	25,500.00	43%	500.00
	Owner 2	100,000.00	25,000.00	23%	33,000.00	55%	8,000.00
	Subtotal	200,000.00	50,000.00	46%	58,500.00	83%	8,500.00
NHCE	Employee 1	34,580.00	8,645.00	8%	1,037.40	2%	(7,607.60)
	Employee 2	30,875.00	7,718.75	7%	926.25	2%	(6,792.50)
	Employee 3	27,170.00	6,792.50	6%	815.10	1%	(5,977.40)
	Employee 4	35,815.00	8,953.75	8%	1,074.45	2%	(7,879.30)
	Employee 5	29,640.00	7,410.00	7%	889.20	1%	(6,520.80)
	Employee 6	37,050.00	9,262.50	9%	1,111.50	2%	(8,151.00)
	Employee 7	39,520.00	9,880.00	9%	1,185.60	2%	(8,694.40)
	Employee 8	50,000.00	Ineligible	-	1,500.00	3%	1,500.00
	Employee 9	72,800.00	Ineligible	-	2,184.00	4%	2,184.00
	Employee 10	39,520.00	Ineligible	-	1,185.60	2%	1,185.60
Subtotal	396,970.00	58,662.50	54%	11,909.10	17%	(46,753.40)	
TOTALS	596,970.00	108,662.50	100%	70,409.10	100%	55,253.40	

SEP



401(k)



How do I get a 401(k) Plan illustration or more information?

Go to our web site: www.PensionSpecialist.net

Or call: Bill Black at 888.412.4120

Fax: 321.397.0409

Email: Bill@PensionSpecialist.net