



SEP vs. 401(k)

What is the Better Option?

PENSIONSPECIALIST.NET

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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 \$24,500 salary deferral (2026).
- 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 \$800 or more.

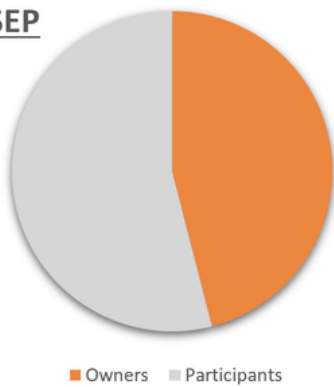
SEP vs 401(k) - The Basics

	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's Discretionary Contributions	Immediate	Gradual over six years
Annual Regulatory Filings	N	Y
Can Have with a Cash Balance Plan	N	Y

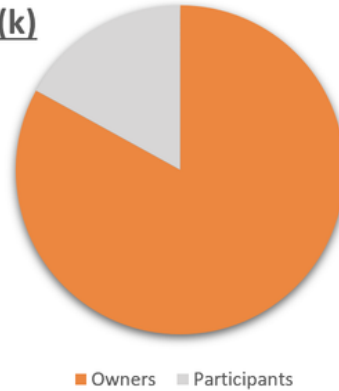
**SEP vs. 401(k) for the Plan Year Ending
December 31, 2026**

Name		Compensation	SEP Contribution	% of Total	401(k) Contribution	% of Total	401(k) Advantage
HCE	Owner 1	100,000.00	25,000.00	23%	24,500.00	41%	(500.00)
	Owner 2	100,000.00	25,000.00	23%	35,750.00	60%	10,750.00
	Subtotal	200,000.00	50,000.00	46%	60,250.00	83%	10,250.00
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%	72,159.10	100%	57,003.40	

SEP



401(k)



FOR MORE INFORMATION OR AN ILLUSTRATION:

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