

# Simplified Employee Pension (SEP) Social Security Integration Option



This fact sheet is designed to provide you with information that can help you decide on a retirement plan that is best for your company and its employees. It answers some commonly asked questions about the Social Security Integration SEP option and briefly outlines the features of this option. This document describes the laws that apply to SEP plans for plan years that start in 2007 and later years, and it is based on the laws in effect in March 2008.

## **Social Security Integration SEP Option Features:**

- Employer-funded retirement plan.
- Two contribution rates: one for compensation at or below the integration level, and one for compensation above the integration level.
- Allowable for employers with any number of employees.
- Established using the Credit Union SEP Contribution Agreement published by CUNA Mutual Business Services, Inc.
- Tax-deferred contributions for employees.
- Contributions for common-law employees are exempt from FICA and FUTA taxes.

## **1. In general, what is the Social Security Integration SEP option?**

The Social Security Integration SEP option is an employer-funded retirement plan in which the employer (see definition on the reverse side) uses two percentages for making contributions. The employer specifies the “integration level” as a portion of the Social Security wage base. Eligible employees who earn less than the integration level receive a contribution on their entire compensation at the base contribution rate (which must be at least 3%). Eligible employees who earn more than the integration level receive a contribution computed at the base contribution rate up to the integration level and at the extra contribution rate above it. Making contributions using these two rates allows the employer to make a greater share of its SEP contributions for higher-paid employees. The employer deposits each employee’s SEP contribution in the employee’s traditional IRA. Contributions must be made by the employer’s tax return due date. Many employers prefer that all employees maintain an IRA at the same credit union so that all contributions can be combined in a single check to the credit union.

## **2. What are the contribution limits?**

For plan years that begin in 2007, the Social Security wage base is \$97,500, only compensation up to \$225,000 can be considered, and the contributions for each participant cannot exceed \$45,000. For plan years that begin in 2008, the Social Security wage base is \$102,000, only compensation up to \$230,000 can be considered, and the contributions for each participant cannot exceed \$46,000. These limits will change for later years. The contributions for each participant cannot exceed 25% of the participant’s compensation.

### **3. Who can sponsor the Social Security Integration SEP option?**

An employer with any number of employees can sponsor the Social Security Integration SEP option. However, employers who have maintained a defined-benefit retirement plan that has been terminated cannot sponsor this SEP option.

### **4. Can I deduct my SEP contributions?**

In the tax year during which the plan year ends, the employer deducts as an ordinary business expense the SEP contributions made on behalf of common-law employees. Owner-employees deduct SEP contributions for themselves on their own tax returns.

### **5. Are there any other tax advantages?**

All SEP contributions for common-law employees under the Social Security Integration SEP option are exempt from FICA and FUTA taxes for the employer and the employee. The savings to the employer of 7.65% FICA taxes can be considerable. Self-employed people must pay self-employment taxes on their own SEP contributions.

### **6. How do I establish a Social Security Integration SEP?**

Just complete a contribution agreement and distribute information to the eligible employees.

### **7. In establishing eligibility requirements, may I exclude anyone from participating?**

In determining eligibility of your employees to receive SEP contributions, you may exclude:

- Employees who have not worked for the employer for a minimum of three out of the five years preceding the current SEP plan year.
- Employees who receive compensation from the employer of less than \$500 for plan years beginning in 2007 or 2008. This limit may change for later years.
- Employees who are younger than 21 years of age and will not reach 21 during the plan year.

The following employees must be excluded: (a) nonresident aliens who receive no earned income from the employer that constitutes income from sources within the United States, and (b) employees included in a unit of employees covered by a collective bargaining agreement, if retirement benefits were the subject of good faith bargaining.

### **Definitions for Terms Related to SEP Plans**

**Common-law employee:** An individual who works for an employer who has the right to control and direct the details and means by which the individual performs his or her services. Someone who performs services for a business in which he or she has an ownership interest is a common-law employee if the business is incorporated, but is an owner-employee if the business is not incorporated.

**Employer:** The person, partnership, corporation, government agency, or other entity that will make contributions under the SEP plan. A person is an employer even if he or she does not have any common-law employees.

**Owner-employee:** Someone who performs services for an unincorporated business in which he or she has an ownership interest. A person who invests money without performing services cannot receive contributions.