<u>SEPs vs 401(k) SAFE HARBOR PLANS:</u>
<u>WHAT ARE THE DIFFERENCES?</u>

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Simplified Employee Plans (SEPs) are permitted to have contributions up to 25% of pay for each participant or $55,000 per year if a participant's pay is high enough. We frequently run into the question of whether a small business should even bother with a qualified plan, such as a 401(k) plan. The purpose of this outline is to compare a SEP with a safe harbor 401(k) plan --- especially for employers who must cover participants other than just the owners. *Note that a SEP is funded entirely by Employer contributions – there are no employee deferrals allowed in a SEP*.

		SEPs (not SARSEPs)	**401(k) Safe Harbor Plans**
A	Eligibility	Employees who earn at least $600 for the year must be included once they are 21 and have worked 3 of the last 5 years.	Can exclude employees who never work at least 1,000 hours in a 12-month period and anyone under age 21.
B	Required Minimum Employer Contribution	Contributions are discretionary.	The employer must commit (one year at a time) to either 1) a match of 100% of the first 3% of pay contributed by the employee, plus 50% of the next 2% of pay contributed; or 2) a non-matching contribution of 3% of pay for all participants.
C	Vesting	Must be fully vested.	Must fully vest the safe harbor minimum contribution. But all additional contributions can be subject to the plan's vesting schedule.
D	Employee Contributions	Not allowed	Up to $18,500 per year, or $24,500 if age 50 or older.
E	Total Contributions	Lesser of 25% of pay or $55,000	Lesser of *<u>100%</u>* of pay or $55,000
F	Limit on the Employer contribution (i.e. excluding the participant's elective deferral)	Determined as in (E) above.	The total deduction of <u>employer</u> contributions (match plus profit sharing) for all participants combined must not exceed 25% of <u>all</u> combined participant salaries.