

SEP's vs 401(k) SAFE-HARBOR PLANS
WHAT ARE THE DIFFERENCES?

Updated 1-2009

Now that Simplified Employee Plans (SEP's) are permitted to have contributions up to 25% of pay for each participant, and \$49,000 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.

		<u>SEP's (not SARSEP's)</u>	<u>401(k) Safe-Harbor Plans</u>
A	Eligibility	Can exclude an employee until he has worked three of the <i>previous</i> five years.	Can exclude employees who never work at least 1,000 hours in a 12-month period.
B	Required Minimum Employer Contribution	None	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 by the employee; or 2) a non-matching contribution of 3% for all participants.
C	Vesting	Must be fully vested.	Must fully vest the safe-harbor minimum. But all additional contributions can be subject to the plan's vesting schedule.
D	Limit per person	Lesser of 25% of pay or \$49,000	Lesser of <u>100%</u> of pay or \$49,000
E	Limit on the Employer contribution (i.e. excluding the participant's elective deferral)	Determined as in (D) above.	The total deduction of <u>employer</u> contributions, match plus profit sharing, for all participants combined, must not exceed the total of 25% of <u>all</u> combined participant salaries.
F	Catch-up Contributions	Not allowed	Participants who are 50 or above by the last day of the year get to make an additional contribution of \$5,500 for 2009.

As shown on the following page, for a given level of contributions for non-owners, the owner can usually defer a larger pre-tax contribution for himself using a 401(k) safe-harbor plan.

If considering employees who would be eligible for both the SEP and the 401(k) safe-harbor plan, the following chart helps to illustrate the differences that can be achieved in contributions for the owners. None of these percentages recognize that people over age 50 can save even more.

2009														
What % of Pay is the Employer Willing to Contribute for the Lower Paid Employees?	SIMPLIFIED EMPLOYEE PLAN (SEP) VS. 401(K) SAFE-HARBOR													
	OWNER'S ANNUAL PAY													
	\$125,000	\$135,000	\$145,000	\$155,000	\$165,000	\$175,000	\$185,000	\$195,000	\$205,000	\$215,000	\$225,000	\$235,000	\$245,000	
	CONTRIBUTION PERCENT THAT CAN BE ACHIEVED FOR THE OWNER													
3%	USING A SEP	4.6%	4.6%	4.6%	4.5%	4.5%	4.5%	4.6%	4.7%	4.7%	4.8%	4.9%	4.9%	5.0%
	USING A 401(K) SAFE-HARBOR PLAN	16.2%	15.2%	14.4%	13.6%	13.0%	12.4%	11.9%	11.5%	11.0%	10.7%	10.3%	10.0%	9.7%
4%	USING A SEP	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.2%	6.2%	6.3%	6.4%	6.5%	6.5%	6.6%
	USING A 401(K) SAFE-HARBOR PLAN	17.7%	16.7%	15.9%	15.2%	14.5%	13.9%	13.5%	13.0%	12.6%	12.3%	12.0%	11.7%	11.4%
5%	USING A SEP	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.7%	7.8%	7.9%	8.0%	8.1%	8.2%	8.3%
	USING A 401(K) SAFE-HARBOR PLAN	19.2%	18.3%	17.4%	16.7%	16.0%	15.5%	15.0%	14.6%	14.2%	13.9%	13.6%	13.3%	13.0%
6%	USING A SEP	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.9%	9.0%	9.1%	9.3%	9.3%	9.4%	9.5%
	USING A 401(K) SAFE-HARBOR PLAN	20.8%	19.8%	18.9%	18.2%	17.5%	17.0%	16.5%	16.1%	15.8%	15.5%	15.2%	14.9%	14.7%
7%	USING A SEP	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.9%	10.0%	10.1%	10.3%	10.3%	10.4%	10.5%
	USING A 401(K) SAFE-HARBOR PLAN	22.3%	21.3%	20.4%	19.7%	19.1%	18.5%	18.1%	17.7%	17.4%	17.1%	16.8%	16.6%	16.3%
8%	USING A SEP	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.9%	11.0%	11.1%	11.3%	11.3%	11.4%	11.5%
	USING A 401(K) SAFE-HARBOR PLAN	23.4%	22.5%	21.6%	20.9%	20.2%	19.6%	19.6%	19.3%	19.0%	18.7%	18.4%	18.2%	18.0%
9%	USING A SEP	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%	11.9%	12.0%	12.1%	12.3%	12.3%	12.4%	12.5%
	USING A 401(K) SAFE-HARBOR PLAN	24.4%	23.5%	22.6%	21.9%	21.2%	20.6%	20.8%	20.5%	20.2%	19.9%	19.7%	19.5%	19.3%
10%	USING A SEP	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.9%	13.0%	13.1%	13.3%	13.3%	13.4%	13.5%
	USING A 401(K) SAFE-HARBOR PLAN	25.4%	24.5%	23.6%	22.9%	22.2%	21.6%	21.8%	21.5%	21.2%	20.9%	20.7%	20.5%	20.0%
11%	USING A SEP	13.2%	13.2%	13.2%	13.2%	13.2%	13.2%	13.9%	14.0%	14.1%	14.3%	14.3%	14.4%	14.5%
	USING A 401(K) SAFE-HARBOR PLAN	26.4%	25.5%	24.6%	23.9%	23.2%	22.6%	22.8%	22.5%	22.2%	21.9%	21.7%	20.9%	20.0%
12%	USING A SEP	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.9%	15.0%	15.1%	15.3%	15.3%	15.4%	15.5%
	USING A 401(K) SAFE-HARBOR PLAN	27.4%	26.5%	25.6%	24.9%	24.2%	23.6%	23.8%	23.5%	23.2%	22.8%	21.8%	20.9%	20.0%