

SEP Plans: Another Connection to Small Employers

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Community banks have a strong success rate when it comes to helping local employers build strong foundations for their businesses. Banks provide small business loans to allow owners to expand and grow. The banks provide commercial checking accounts so that owners can conduct the day to day business operations including meeting payroll. These are critical support functions that banks have provided throughout their history.

But what if your bank could also help business owners invest in their own futures *and* help them retain good employees by offering a retirement plan? Business owners across the country face a critical need. We are seeing the largest percentage of Americans actively working than we have in decades—the latest national unemployment figure was 3.8%¹. This creates much greater competition for workers. Benefits play a key role in whether someone will accept a position and also whether they stay with that employer. Healthcare and retirement benefits are the two key drivers in that decision.

The Coverage Gap

According to an AARP survey, 55 million workers do not have access to an employer-based retirement plan². Without some sort of driver—either through an employer or through financial education—the average employee will not seek out a retirement savings option on her own. This lack of access is more pronounced with micro employers (1–50 employees) and small employers (51–99 employees). According to Morningstar, only 48 percent of employees in the micro market have access to a retirement plan³. That number increases to 67 percent for small employers. With that level of coverage gap, you begin to understand why state and local governments have started to step in with other retirement savings options. Community banks also have an opportunity to fill the coverage gap by offering retirement savings plans suited for small businesses, such as simplified employee pension (SEP) and savings incentive match plan for employees of small employers (SIMPLE) IRA plans. Today, we will focus on SEP plans.

A Solution for Small Employers

SEP plans are available to nearly every type of business, but usually attract small businesses or self-employed individuals. In a SEP plan, employers can choose to make Traditional IRA contributions (according to specific formulas) to themselves and eligible employees. An employer generally can contribute a maximum of the lesser of 25 percent of the employee's compensation for that year or \$56,000 for 2019.

These plans offer many of the same advantages of other plans, but are easier and less expensive to maintain profit sharing or 401(k) plans. SEP plans benefit both employers and employees in the following ways.

Employers

- Less expensive to maintain
- Relief from fiduciary liability for investment performance
- No nondiscrimination or coverage testing
- Deductible employer contributions
- Discretionary employer contributions
- Start-up tax credit
- Owners receive contributions

Employees

- Opportunity to save for retirement
- Tax-deferred contributions and earnings until distributed
- Employer funds contributions to the employee's Traditional IRA
- Employee owns the Traditional IRA contributions immediately

Easy for Employers

One of the most common questions we receive at Ascensus® is “How difficult is it to establish a SEP plan?” The answer is: the process is generally easy. The bank can provide to the employer a plan document based on IRS Form 5305-SEP, *Simplified Employee Pension-Individual Retirement Accounts Contribution Agreement*. The employer makes a few elections on the document before their tax return due date plus extensions, and the plan is created. The employer then provides their employees with the required notice containing SEP rules and plan provisions.

Eligible employees, including the business owner, must also establish Traditional IRAs to receive contributions. This is the key opportunity to obtain new or cross-sold clients as employees may establish the Traditional IRAs wherever they choose. Your bank may coordinate with the employer to provide education and streamline the Traditional IRA establishment process to encourage enrollment with your organization.

Easy for Banks

There is little investment you need to make to enter or enhance this market. Your bank likely already has much of what you need to offer SEP plans.

- **SEP Plan Document for Employers** – The bank can secure a SEP plan document to provide to employers. The bank can elect to charge for initially providing the document, or annually for maintaining it.
- **Traditional IRA Document for Employees** – These IRA opening documents are the same documents used for all Traditional IRAs the bank services today.
- **Required Reporting** – The bank must report SEP contributions to the employee's Traditional IRA just as they do for all Traditional IRAs. There is no additional reporting

required; the difference is properly coding the contributions as SEP contributions for the correct tax year. Most bank data processing systems already have this coding option.

The key differential for a bank will be their willingness to educate both their staff and small businesses. You should be able to provide employers with baseline education about the rules and benefits of a SEP plan. But most importantly, you should educate employees on the value of the SEP plan and what it means for their futures. Assisting employers and employees by providing helpful information will lead to successful SEP plans and stronger bonds with your bank.

About Ascensus

Ascensus delivers technology and expertise to help millions of people save for what matters most—retirement, education, and healthcare. With more than 35 years of experience, the firm offers tailored solutions that meet the needs of asset managers, banks, credit unions, state governments, financial professionals, employers, and individuals. Ascensus supports over 75,000 retirement plans, more than 4.3 million 529 education savings accounts, and a growing number of ABLE savings accounts. It also administers more than 1.6 million IRAs and health savings accounts. As of September 30, 2018, Ascensus had over \$205 billion in total assets under administration. For more information about Ascensus, visit ascensus.com.

¹Bureau of Labor Statistics, “The Employment Situation—February 2019,” February 2019, <https://www.bls.gov/news.release/pdf/empsit.pdf>

²David John and Gary Koenig, AARP Public Policy Institute, “Workplace Retirement Plans Will Help Workers Build Economic Security,” October 2014, <https://www.aarp.org/content/dam/aarp/ppi/2014-10/aarp-workplace-retirement-plans-build-economic-security.pdf>.

³Morningstar, “Small Employers, Big Responsibilities: How Policymakers Can Address the Small Retirement Plan Problem,” November 2017, <https://www.morningstar.com/content/dam/marketing/shared/pdfs/policy/SmallEmployersBigResponsibilities.pdf>.

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