Explore SEP and SIMPLE retirement plans for your small business

Suppose you're thinking about setting up a retirement plan for yourself and your employees. However, you're concerned about the financial commitment and administrative burdens involved. There are a couple of options to consider. Let's take a look at a Simplified Employee Pension (SEP) and a Savings Incentive Match Plan for Employees (SIMPLE).

SEPs offer easy implementation

SEPs are intended to be an attractive alternative to "qualified" retirement plans, particularly for small businesses. The appealing features include the relative ease of administration and the discretion that you, as the employer, are permitted in deciding whether or not to make annual contributions.

If you don't already have a qualified retirement plan, you can set up a SEP just by using the IRS model SEP, Form 5305-SEP. By adopting and implementing this model SEP, which doesn't have to be filed with the IRS, you'll have satisfied the SEP requirements. This means that as the employer, you'll get a current income tax deduction for contributions you make on your employees' behalf. Your employees won't be taxed when the contributions are made but will be taxed later when distributions are received, usually at retirement. Depending on your needs, an individually-designed SEP — instead of the model SEP — may be appropriate for you.

When you set up a SEP for yourself and your employees, you'll make deductible contributions to each employee's IRA, called a SEP-IRA, which must be IRS approved. The maximum amount of deductible contributions you can make to an employee's SEP-IRA in 2025, and that he or she can exclude from income, is the lesser of 25% of compensation or $70,000. The deduction for your contributions to employees' SEP-IRAs isn't limited by the deduction ceiling applicable to an individual's contributions to a regular IRA. Your employees control their individual IRAs and IRA investments, the earnings on which are tax-free.

You'll have to meet other requirements to be eligible to set up a SEP. Essentially, all regular employees must elect to participate in the program, and contributions can't discriminate in favor of highly compensated employees. But these requirements are minor compared to the bookkeeping and other administrative burdens associated with traditional qualified pension and profit-sharing plans.

The detailed records that traditional plans must maintain to comply with the complex nondiscrimination rules aren't required for SEPs. And employers aren't required to file annual reports with the IRS, which, for a pension plan, could require the services of an actuary. The required recordkeeping can be done by a trustee of the SEP-IRAs — usually a bank or mutual fund.

SIMPLE plans meet IRS requirements

Another option for a business with 100 or fewer employees is a Savings Incentive Match Plan for Employees (SIMPLE). Under these plans, a SIMPLE IRA is established for each eligible employee, with the employer making matching contributions based on contributions elected by participating employees under a qualified salary reduction arrangement. The SIMPLE plan is also subject to much less stringent requirements than traditional qualified retirement plans. Or, an employer can adopt a SIMPLE 401(k) plan, with similar features to a SIMPLE IRA plan, and avoid the otherwise complex nondiscrimination test for traditional 401(k) plans.

For 2025, SIMPLE deferrals are allowed for up to $16,500 plus an additional $3,500 catch-up contribution for employees age 50 or older.

Unique advantages

As you can see, SEP and SIMPLE plans offer unique advantages for small business owners and their employees. Neither plan requires annual filings with the IRS. Contact us for more information or to discuss any other aspect of your retirement planning.