

# SEP/IRAs



A Valuable Retirement  
Benefit for You and  
Your Employees

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# SEP/



“ Now you can provide a valuable retirement benefit for you and your employees without the cost and complexities typically associated with company-sponsored retirement plans. ”

# IRA



Small business owners face two common problems: 1) hiring and retaining quality employees and 2) taxes. To address these issues, many employers have established retirement savings programs. But maintaining some retirement plans can be very costly and time consuming.

Now you can provide a valuable retirement benefit for you and your employees without the cost and complexities typically associated with company-sponsored retirement plans.

A Stifel Nicolaus Simplified Employee Pension Plan/Individual Retirement Account (SEP/IRA) is easy to establish and cost efficient to maintain. You and your eligible employees simply open separate SEP/IRAs. All contributions you make flow directly into each of these individual accounts. Contributions are fully deductible for federal income tax purposes (subject to certain limits), and they compound tax-deferred until distributions are taken, generally after age 59 1/2.

Almost any business can set up a SEP/IRA: corporations, partnerships, even self-employed individuals. Most small businesses are ideally suited for a SEP/IRA program.

We encourage you to spend a few minutes to learn more about this valuable program. If you have any questions regarding a SEP/IRA, please contact your Stifel Nicolaus Financial Advisor.

# Commonly Questions

## **Q: What is a SEP/IRA?**

A SEP/IRA is a company-sponsored retirement plan that allows small business owners to assist employees in saving money for retirement and to reduce their companies' income taxes. SEP/IRAs are low-cost plans with little administrative hassle. Employers deposit tax-deductible dollars into each employee's personal SEP/IRA, and such contributions are 100% immediately vested.

Contributions and earnings compound tax-deferred until distributions are taken from the account. Normal IRA distribution rules apply to SEP/IRAs.

## **Q: What are some advantages of a SEP/IRA?**

- SEP/IRAs aren't limited to the standard IRA maximum contribution limits.
- You may contribute to each eligible employee as much as 25% of the employee's annual compensation ("earned income" for self-employed individuals), up to the IRS compensation cap.
- Unlike traditional pension plans, a SEP/IRA allows you to vary your contributions from year to year to suit your cash flow. In fact, you can skip a year altogether and still retain the tax-favored growth for established SEP/IRA accounts.

# Asked



- You deduct all contributions made on behalf of employees, including yourself, reducing your company's tax bill.
- You give your employees a valuable retirement benefit without adding to their federal tax obligation.
- Your employees gain the ability to direct their investments based on their own objectives.

## **Q: Which employers can offer SEP/IRA plans?**

Any sole proprietor, partnership, nonprofit organization, or corporation may establish a SEP plan.

## **Q: Am I required to make a contribution for all my employees?**

Generally, all employees must be included in a SEP plan after meeting certain eligibility requirements. Your organization can choose to exclude the following categories of employees:

- Employees who have worked for the employer less than three of the immediately preceding five years
- Employees who earned less than \$500 (2009) per year
- Union members covered by a collective bargaining agreement
- Certain nonresident aliens
- Employees under 21 years of age



### **Q: How much must I contribute?**

There are no mandatory contributions, unless your plan is Top Heavy. You have the option to vary your contributions from year to year or to not contribute at all.

Generally, you must contribute to all eligible employees the same percentage of their annual compensation (see the discussion of Social Security Integration that follows).

The maximum amount that you can contribute each year, and deduct as a qualified business expense, is 25% of all eligible employees' compensation. The annual maximum is limited to \$49,000 (as indexed for 2009) per person.

### **Q: What is “compensation”?**

All earned income is considered compensation, although compensation in excess of \$245,000 (as indexed for 2009) may not be counted.



For self-employed individuals, the contribution is based on “net business income,” which is self-employment income, minus half of the self-employment taxes paid, further reduced by the amount of the deductible plan contribution. Consult your tax advisor to calculate your contribution.

**Q: Can I take credit for Social Security payments I make for my employees when I determine my contributions?**

Yes, in an indirect way. By electing to take advantage of “Social Security Integration,” you can offset the Old Age (OA) portion of the Social Security tax you’ve paid on behalf of your employees.

Since Social Security provides proportionately higher benefits to lower-paid employees, SEP integration rules compensate for this by allowing proportionately higher SEP contributions to employees earning more than the Social Security Wage Base.

**Q: What are my IRS filing requirements?**

There is no reporting made to the Internal Revenue Service (IRS) aside from claiming your SEP/IRA contributions as deductions on your corporate tax return, or individual return if self-employed. Maintaining a SEP/IRA offers an important employee benefit and a valuable tax deduction with virtually no employer administration.

**Q: Are my employees taxed on the contributions I make for them?**

No. Your contributions are not included as taxable income and are not reported on your employees' annual Form W-2 as compensation. Your contributions are also not subject to FICA (Social Security) and FUTA (unemployment) taxes.

By the same token, your employees cannot claim a deduction for any portion of the contributions that you make on their behalf. Only the employer is permitted to claim the contributions as a deduction for tax purposes. Contributions and the earnings will be taxed as ordinary income when the employees withdraw in the future.

**Q: Can my employees make SEP contributions to the SEP/IRA?**

A SEP plan that allows employees to make pre-tax salary deferrals is called a Salary Reduction SEP (SARSEP). This option was available for SEP plans established prior to December 31, 1996. No new SARSEP plans can be established.

**Q: Can new eligible employees be added to an existing SARSEP plan?**

Yes. Businesses with SARSEPs established prior to December 31, 1996, and with 25 or fewer eligible employees may add new eligible employees and continue to operate as before.

## **Q: Can my employees make Traditional IRA contributions into their SEP/IRAs?**

Yes, they can. You can too. In fact, many employees maintain their personal Traditional IRAs as part of their SEP/IRA plan. Contributions are made directly by the employee to the SEP account and can be made each year even if you don't make employer SEP contributions.

For years in which an employer SEP contribution is made, an employee is considered an "active participant" in an employer-sponsored plan. Therefore, IRA contributions made by an employee may not be deductible, depending upon the employee's adjusted gross income (AGI).

## **Q: What are my contribution deadlines?**

You may elect to operate your plan on a calendar or fiscal year basis. The deadline for set-up of and contributions to a SEP/IRA is the due date of your company's tax return (plus extensions, if granted). This is the only employer-sponsored retirement plan that enables an employer to create and fund a plan after the end of the year.



**Q: When can employees access this money?**

All contributions are immediately 100% vested, so a participant can withdraw the funds at any time. Distributions are taxed as ordinary income and may also be subject to a 10% penalty if the participant is under age 59 1/2 when the distribution is made. Standard IRA exceptions to the 10% penalty include death, disability, first-time homebuyer, higher education, certain health insurance or medical expenses, certain declared Presidential disaster area relief, active duty, and Rule 72(t), substantially equal periodic payments.

## **Q: How do I establish a Stifel Nicolaus SEP/IRA?**

An individual account will be established and maintained for each participant in the plan. With a Stifel Nicolaus SEP/IRA, each SEP plan participant has full flexibility to invest their assets as they choose to meet their own goals and objectives. Your Stifel Nicolaus Financial Advisor is available to assist each participant with his or her investment decisions.

## **An Affordable Flexible Solution — SEP/IRA**

By establishing and contributing to a SEP/IRA, you reduce taxes while giving your employees what they want — a program for retirement savings. In fact, a company-sponsored retirement plan is among the most important fringe benefits among employees.

The SEP plan gives you an affordable solution with flexibility in the amount you contribute. It's easy to establish and simple to administer. Stifel Nicolaus adds value to this already beneficial retirement program with outstanding service and personalized investment education and advice for each of your participants.

Everyone benefits from planning now. Call your Stifel Nicolaus Financial Advisor to establish your company's SEP/IRA today.

STIFEL, NICOLAUS & COMPANY, INCORPORATED

One Financial Plaza  
501 North Broadway  
St. Louis, Missouri 63102  
(314) 342-2000

[www.stifel.com](http://www.stifel.com)

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