ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

SEP and SIMPLE IRAs... IRAs? Employer Plans? Or Both?

There's an old expression that goes something like this; if it walks like a duck and quacks like a duck, it's probably a duck. What happens, though, if it walks like a duck but barks like a dog? Is it a duck, or a dog...or both? While the answer to that question may only be found in some sci-fi horror movie, a similar conundrum plagues advisors when it comes to IRA-based employer sponsored retirement plans like Simplified Employee Pension (SEP) IRAs and Savings Incentive Match Plan for Employees (SIMPLE) IRAs.

On one hand, the assets held in these accounts are IRAs (it does say IRA right in the name after all), but on the other hand, they are employer sponsored retirement plans. So do the assets in these accounts follow plan rules or IRA rules? Unfortunately, the answer is far more complex that simply "picking a side." Instead, SEP and SIMPLE IRAs bounce back and forth between the IRA rules and the plan rules, which often leads to confusion and errors by both advisors and clients.

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Contribution Limits

When it comes to their contribution limits, SEP and SIMPLE IRAs definitely don't follow the "regular" IRA rules. The maximum traditional IRA or Roth IRA contribution for 2015 is limited to 100% of compensation (typically earned income) or $5,500 ($6,500 if the individual is age 50 or older by the end of the year), whichever is less. The contribution rules for SEP and SIMPLE IRAs differ significantly.

SEP IRAs, for instance, potentially allow clients to get much more money into a tax-favored plan each year. Contributions to SEP IRAs can be up to 25% of compensation. The amount of compensation that can be considered is limited though. For 2015, compensation is limited to $265,000, and the maximum SEP IRA contribution is capped at $53,000. Note that the SEP IRA contribution limit is the same, regardless of a client's age. There are no catch-up contributions for SEP IRAs.

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