

SEP IRA

Introducing the Simplified Employee Pension

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Have you considered adopting a retirement plan for your business but been discouraged by the high cost, administrative burden and permanent commitment that is usually associated with qualified employee benefit plans?

A Simplified Employee Pension ("SEP") Plan May be the Solution

Most employers, whether self-employed individuals, owners of unincorporated businesses, partnerships, corporations or S corporations, are eligible to adopt a SEP.

TAX SAVINGS. A SEP Plan can be an important tax planning tool for the employer and the employee. SEP contributions may be tax deductible for the employer. This can mean substantial tax-dollar savings. Furthermore, SEP contributions within the allowable limits are not taxable as current compensation to the employee until they are withdrawn from the employees' SEP IRAs. The tax-deferred status of the earnings on SEP IRA assets may help accelerate the growth potential of the funds and provide a larger pool of capital for retirement.

EASY ESTABLISHMENT. A SEP Plan describes the rules under which the employer may make discretionary SEP contributions to all eligible employees' SEP IRAs. Therefore, a SEP normally

does not involve costly legal or pension administrative fees. Establishing a SEP involves:

- Completing a short SEP Employer Agreement or the IRS 5305-SEP Form (prior to tax-filing due date with extension);
- Giving copies of the completed and signed agreement and accompanying disclosure information to your eligible employees;
- Having each eligible employee establish a SEP IRA; and
- Making SEP contributions to each eligible employee's SEP IRA in a timely manner, which can be as late as the date for filing the employer's tax return with extension.

EASY ADMINISTRATION. SEPs can qualify for relief from many of the federal regulations and IRS filing requirements (including Form 5500) that apply to other types of tax-qualified retirement programs. The employer is not responsible for reporting on or administering SEP IRAs. Furthermore, since a SEP permits

employees to direct the investment of their own IRAs, the employer has no responsibility for such investments and avoids many of the fiduciary duties usually associated with a qualified employee benefit plan.

Contributions

MAKING SEP CONTRIBUTIONS IS EASY.

The employer makes SEP contributions directly to the SEP IRA account established by the employee. The maximum amount that the employer may contribute to a SEP is 25 percent of compensation (20 percent of net earnings from self-employment for a self-employed person) or \$55,000 for 2018, whichever is less, per participant.

CONTRIBUTION AMOUNTS CAN VARY EACH YEAR OR BE OMITTED ENTIRELY.

Each year, the employer may decide whether to make SEP contributions. If contributions are made, the employer decides at what level. When the employer makes SEP contributions, he or she must make them in the same percentage of total compensation for each eligible employee. However, if the employer elects a contribution formula that takes into consideration the Social Security taxable wage base, higher-paid employees may receive a slightly higher percentage of the SEP contribution.

ONLY ELIGIBLE EMPLOYEES RECEIVE SEP CONTRIBUTIONS.

Eligibility is defined as all employees of the employer who have attained age 21 and who have performed any part-time or full-time service for the

employer in at least three out of the last five years. In general, employees covered under a collective bargaining agreement, nonresident alien employees with no U.S.-sourced earned income, and employees who earn less than \$600 for 2018 need not receive SEP contributions. Younger age limits and shorter service periods may be used if employers select these in their SEP adoption agreement.

The Morgan Stanley SEP IRA

Selecting the right IRA to receive SEP contributions is an important decision for you and your employees. You will need to consider the quality of investments available, the ability to change investments as needed, the competitiveness of the administrative fees and the ease of making SEP contributions. By adopting the Morgan Stanley SEP IRA, you can:

- Allow employees to direct the investment of their own SEP IRAs. With the Morgan Stanley SEP IRA, each individual can decide upon investments such as stocks, bonds, certain mutual funds, certificates of deposit and certain annuities.¹ Each individual decides what investments to make, how much to invest in any of the one or more types of investments, and when to buy or sell his or her SEP IRA investments. This opportunity to change investment strategies and diversify a portfolio² can help increase each individual's growth opportunities.

- Benefit from competitive pricing and ease of administration. For SEP Plans, our policy is as follows: Each IRA will be charged for annual administration. There is a termination fee and a transfer fee for each terminated IRA account. However, termination fees are not charged if the account is distributed in a year that the account owner is age 75 or older, or following the disability or death of the account owner. Unless you have agreed otherwise, normal brokerage commissions will be charged for purchases and sales within the SEP IRA account.
- Send only one contribution check payable to Morgan Stanley Smith Barney LLC for all eligible employees' IRA accounts. This saves you time because you avoid making SEP contributions to several separate institutions.

What's Next?

If a SEP Plan makes sense for your business, ask your Morgan Stanley Financial Advisor or Private Wealth Advisor for a copy of the Morgan Stanley Simplified Employee Pension (SEP) Plan Employer Adoption Agreement which you should review with your own legal and/or tax advisor. It provides detailed information about SEPs and gives you everything you need to start a tax-advantaged way for you and your employees to save for retirement.



ALL THIS AND A TRADITIONAL IRA OR ROTH IRA, TOO!

Besides the employer's SEP contribution, all eligible employees may also fund a Traditional IRA or a Roth IRA in an amount up to 100 percent of their earned income or \$5,500, whichever is less. An additional catch-up contribution of \$1,000 is permitted for IRA participants who are age 50 or older. All normal eligibility requirements must be satisfied regardless of the type of IRA in which the employee wishes to participate. The additional funding increases the employee's retirement savings and supplements the SEP contributions with IRA contributions that may or may not be deductible depending upon the type of IRA selected,³ the employee's Modified Adjusted Gross Income, tax filing status, and whether the individual is an active participant in a retirement plan (e.g., a SEP contribution is made to his or her SEP account).

¹ Investing in an annuity does not provide any additional tax deferral benefit as tax deferral is provided by the qualified plan.

² Diversification does not assure a profit or protect against loss.

³ Roth IRA contributions are not deductible; a separate Roth IRA account must be established for Roth IRA contributions. Contribution limits may apply if the individual's modified adjusted gross income exceeds certain thresholds, which are based on his/her tax filing status.

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