

SELF-EMPLOYED PENSIONS: I CAN PUT AWAY HOW MUCH?!



by Chris Lester

As a small business owner, you likely wear many hats—CEO, manager, HR, and more. One of the hats you wear involves planning for your own retirement while also ensuring your employees have opportunities to save for theirs. If you're looking for a simple, flexible, and tax-advantaged retirement plan, a Simplified Employee Pension Individual Retirement Account (SEP IRA) might be the perfect fit.

Let's break down what a SEP IRA is, its benefits, and some of the potential limitations you'll want to consider before implementing this type of plan.



What Is a SEP IRA?

A SEP IRA is a type of retirement plan designed specifically for small business owners and self-employed individuals. It allows employers to make tax-deductible contributions to their own retirement accounts and those of their employees, if applicable. Contributions go directly into an IRA for each participant, growing tax-deferred until withdrawals are made in retirement.

SEP IRAs are attractive because they combine simplicity with high contribution limits, making them ideal for small business owners who want to prioritize retirement savings without the administrative headaches of more complex plans like 401(k)s.

Benefits of a SEP IRA

- 1. High Contribution Limits** For 2025, you can contribute up to 25% of your net self-employment income or \$66,000, whichever is lower. Compare this to the \$22,500 contribution limit for a 401(k) (not including catch-up contributions), and you'll see why SEP IRAs are such a powerful tool for small business owners.
- 2. Tax Advantages** Contributions are tax-deductible, reducing your taxable income. Additionally, the investments grow tax-deferred, meaning you won't pay taxes on gains, dividends, or interest until you withdraw the funds in retirement.

3. **Flexibility** SEP IRAs offer the flexibility to decide each year how much you want to contribute—or whether you want to contribute at all. This is especially helpful for businesses with fluctuating cash flow.

4. **Simplicity** Unlike other retirement plans, SEP IRAs have minimal setup and administrative costs. There's no annual filing requirement with the IRS, and the Paperwork is straightforward.

5. **Employee Benefits** If you have employees, offering a SEP IRA can help attract and retain top talent. Contributions are 100% employer-funded, which is a great benefit for your team.

Limitations of SEP IRAs

1. **Employer-Only Contributions** Employees cannot make their own contributions to a SEP IRA. All contributions come from the employer, which can become costly if you have multiple employees.

2. **Uniform Contribution Percentage** Employers must contribute the same percentage of compensation to each eligible employee's account, including their own. For example, if you contribute 15% of your income to your account, you must also contribute 15% of each eligible employee's salary to their accounts.

3. **No Catch-Up Contributions** SEP IRAs do not allow for catch-up contributions for participants aged 50 and older, unlike other plans such as 401(k)s or IRAs.

4. **Eligibility Rules** Employees must meet certain eligibility criteria to participate, such as being at least 21 years old, having worked for your business in at least three of the past five years, and earning at least \$750 in compensation (as of 2025). These requirements might limit participation but can also mean you're covering fewer employees.

5. **No Roth Option** Contributions to a SEP IRA are always pre-tax. If you're looking for a Roth (after-tax) option, you'll need to explore other plans like a Roth IRA or a Solo 401(k).

Is a SEP IRA Right for Your Business?

A SEP IRA is a great choice if you:

- Are self-employed or own a small business with no or few employees.
- Want a plan with high contribution limits and minimal administrative requirements.
- Value flexibility in making contributions based on your business's performance.
- Are looking for tax-deductible contributions and tax-deferred growth.

However, if you have several employees and can't afford to contribute equally to their accounts, or if you want employees to have the option to contribute on their own, you may want to explore other retirement plans like a SIMPLE IRA or a traditional 401(k).

Final Thoughts

For small business owners who want to maximize their retirement savings while keeping things simple, SEP IRAs are hard to beat. With their high contribution limits and tax advantages, they can help you build a robust retirement fund while offering a valuable benefit to employees.

Still not sure if a SEP IRA is right for you? Professional Planning Services can help you evaluate your options and create a retirement plan tailored to your unique needs. Contact us today to get started—because the sooner you start planning, the more you'll thank yourself in the future!

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