

# SEP VS. SAFE HARBOR 401(K) PLAN

Why would a two person firm select a Safe Harbor 401(k) instead of a SEP?

The benefits a Safe Harbor 401(k) Plan allow that a SEP does not:

- Employee Deferrals (both pre-tax and/or Roth) = \$24,000 (\$18,000 + \$6,000 Catch-up)
- Discretionary Profit Sharing Formulas (other than just prorated formulas)
- Matching Formulas
- Loans
- Hardships Withdrawals
- Eligibility Restrictions
- Possible Vesting Schedules
- IRA assets are not protected from bankruptcy or related issues

In a SEP, the employee receives an employer contribution whether or not they participate or appreciate a benefit.

Assumptions: 2017 contribution limits, Safe Harbor basic match formula, Owner is eligible for catch-up contributions.

SEP Plan	Name	Annual Comp	Deferral	Employer (~20%)	Total Contributions
	Owner	\$150,000	N/A	\$30,000	\$30,000
	Employee	\$50,000	N/A	\$10,000	\$10,000
	<b>Totals</b>	<b>\$200,000</b>	<b>N/A</b>	<b>\$40,000</b>	<b>\$40,000</b>

  

Safe Harbor	Name	Annual Comp	Deferral	Employer Match	Total Contributions
	Owner	\$150,000	\$24,000	\$6,000	\$30,000
	Employee	\$50,000	\$2,500	\$2,000	\$4,500
	<b>Totals</b>	<b>\$200,000</b>	<b>\$26,500</b>	<b>\$8,000</b>	<b>\$34,500</b>

In the example above, it would cost the owner an extra \$8,000 to contribute \$30,000 to his SEP account.

## Optimize the plan by adding a profit sharing component

Assumptions: 2017 contribution limits, Safe Harbor basic match formula, new comparability profit sharing allocation, owner is eligible for catch-up contributions.

SEP Plan	Name	Annual Comp	Deferral	Employer (~20%)	Profit Sharing	Total Contributions
	Owner (age 55)	\$150,000	N/A	\$30,000	N/A	\$30,000
	Employee (age 45)	\$50,000	N/A	\$10,000	N/A	\$10,000
	<b>Totals</b>	<b>\$200,000</b>	<b>N/A</b>	<b>\$40,000</b>	<b>N/A</b>	<b>\$40,000</b>

  

Safe Harbor & Profit Sharing	Name	Annual Comp	Deferral	Employer Match	Profit Sharing	Total Contributions
	Owner (age 55)	\$150,000	\$24,000	\$6,000	\$30,000	\$60,000
	Employee (age 45)	\$50,000	\$2,500	\$2,000	\$4,692	\$9,192
	<b>Totals</b>	<b>\$200,000</b>	<b>\$26,500</b>	<b>\$8,000</b>	<b>\$34,692</b>	<b>\$69,192</b>

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**This is not tax advice. Please consult your tax advisor for specific tax advice.**