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SCHWAB

Employee Q&A

Questions and
Answers About the
Schwab SEP-IRA

Own your tomorrow®

Here are answers to some questions you may have about a SEP-IRA.

Overview

What is a Simplified Employee Pension (SEP) Plan?

A SEP is a retirement plan established by your employer. Contributions are made by your employer to your own Individual Retirement Account (IRA).

Who's eligible to participate?

Eligible employees are those who have satisfied the minimum age, service and compensation requirements set by your employer. Collectively bargained (union) employees, nonresident aliens and certain employees acquired in a merger or other business transactions may be excluded. These requirements are specified in the Schwab SEP-IRA Employee Summary.

Can I participate in a SEP-IRA even though I'm covered by another retirement plan that my employer offers?

Yes. However, the combined contributions may be limited. Also, if you work for more than one employer, you may be covered by the SEP-IRA of one employer and a SEP-IRA, pension or profit-sharing plan of another employer.

What if I don't want to participate in my employer's SEP-IRA Plan?

Your employer may require that you participate in the plan as a result of your employment.

When do I have access to my money?

Contributions made to the plan are immediately 100% vested upon receipt from your employer. This means they belong to you, and are available for you to invest.

Is my employer required to provide me with information about the SEP-IRA?

Yes. Your employer must provide you with a completed Schwab SEP-IRA Employee Summary form as well as these questions and answers. You must also receive a statement each year showing any contribution to your SEP-IRA.

Do I need to file any additional forms with the IRS because I participate in a SEP-IRA?

No.

Do I have to open my SEP-IRA account at Schwab?

Yes. All SEP-IRA contributions made for you will be deposited into a SEP-IRA established at Charles Schwab & Co., Inc.

Will Schwab send me information about my SEP-IRA?

Yes. We will send you quarterly statements showing your account activity.

Contributions

Does my employer have to contribute to my SEP-IRA?

Making contributions to your SEP-IRA is entirely up to your employer. If contributions are made, they must be made to all eligible employee accounts according to the allocation formula your employer has selected. Refer to the Schwab SEP-IRA Employee Summary to see whether your employer has selected the pro rata formula, the flat dollar formula or the integrated formula. If your employer has selected the pro rata formula, contributions on behalf of each eligible employee will be the same percentage of compensation for all employees.

How much may my employer contribute to my SEP-IRA?

The lesser of \$57,000 for tax year 2020 (\$56,000 for tax year 2019) or 25% of your compensation for a given year.¹ The compensation used to determine this amount doesn't include any of the contributions your employer makes to your SEP-IRA.

When contributions are calculated, an employee's compensation above \$285,000 for tax year 2020 (\$280,000 for tax year 2019)² won't be considered. The law prohibits your employer from making contributions that discriminate in favor of Highly Compensated Employees.

When are contributions deposited into my SEP-IRA?

Your employer may make annual contributions at any time up to the company's income tax filing date, including extensions.

For tax purposes, how do I treat my employer's SEP-IRA contributions?

The amount your employer contributes is not part of your gross income and isn't included as taxable wages on your Form W-2.

May I contribute to a personal IRA and my SEP-IRA?

Yes. You can contribute up to the lesser of \$6,000 (\$7,000 if you're age 50 or older)¹ or 100% of your compensation to a personal IRA. However, if your employer contributes to your SEP-IRA during the year, you're considered an active participant in an employer-maintained retirement plan. So whether you're able to deduct your IRA contribution will depend on your level of income and your tax-filing status. To make a personal IRA contribution with Schwab, you may use your SEP-IRA account or open a separate IRA. Call us at 1-800-435-4000 for an application.

Does my employer contribute to my SEP-IRA if I terminate employment?

If you terminate employment during a calendar year in which you were eligible and earned more than \$600,¹ then your employer must make a contribution on your behalf for that year. Your employer is not required to make contributions to your account after the last calendar year of your employment.

Can I transfer a SEP-IRA held at another institution to a Schwab SEP-IRA?

Yes. Transferring SEP-IRA assets held at another financial institution to a Schwab SEP-IRA requires the completion of a Schwab Transfer of Account form, as well as the completion of any other documents necessary to open a SEP-IRA at Schwab.

My employer is using an integrated contribution formula. What is it, and how does it work?

Integration is an IRS-approved option for employers to use to compute SEP-IRA contributions for employees. Basically, those eligible employees with "excess" compensation may receive an additional contribution. Excess compensation is annual pay above a certain amount—this amount is called the "integration level."

Instead of contributing the same percentage of compensation to the SEP-IRAs of all employees, an employer using an integrated SEP-IRA contribution formula makes a series of contributions—some based on total compensation, others based on excess compensation.

The integrated contribution formula is complex. If your employer has chosen this method, we recommend that you speak with your employer to better understand how it works.

Distributions

Can I take money out of my SEP-IRA?

Yes. Although the SEP-IRA contributions are meant for retirement, you can withdraw funds (take distributions) at any time by logging in to your SEP-IRA account at Schwab.com, by completing and submitting a Schwab IRA Distribution Request Form or by calling 1-800-435-4000. Distributions will be subject to ordinary income tax, and if you're under age 59½ the money may be subject to a 10% penalty. State penalties may also apply. If you're considering taking a distribution before reaching age 59½, we recommend that you consult with your tax advisor regarding your particular situation.

Can I move my funds from my SEP-IRA to another tax-deferred IRA?

Yes. You can withdraw money from your SEP-IRA and, no more than 60 days after receiving it, deposit it in another IRA. This is called a "rollover." If you make a rollover more than once in a 12-consecutive-month period, you'll pay a penalty. However, there are no restrictions on the number of times that you may directly move money between trustees (or custodians) of the different IRAs if you never actually have possession of the money. This is called a "transfer." To initiate a transfer, you should contact the financial institution where you will be depositing the money.

SARSEP

What is a SARSEP?

A Salary Reduction SEP (SARSEP) is a type of retirement plan established by your employer that allows eligible employees to elect to have a portion of their pay contributed to their SEP-IRA on a pre-tax basis.

How will I know if my employer established a SARSEP?

Refer to the Schwab SEP-IRA Employee Summary provided by your employer to determine if your employer's SEP-IRA Plan is a SARSEP.

How does a SARSEP work?

In addition to any employer contributions, you may also have your employer contribute to your SEP-IRA by reducing your salary and/or bonuses—these amounts are referred to as SARSEP deferrals. The following special rules apply:

- Your total compensation for purposes of calculating SEP-IRA contributions will include your SARSEP deferrals.
- The limit on SEP-IRA contributions for you—\$56,000 for 2019 and \$57,000 for 2020 or 25% of compensation¹—will include your SARSEP deferrals.
- You may not remove SARSEP deferrals from your SEP-IRA until 2½ months after the end of the plan year, unless your employer informs you that the deferrals may be removed sooner.

¹For tax years 2019 and 2020. May be adjusted for inflation in future years.


²For tax years 2019 and 2020. Federal law provides for certain future increases and inflation adjustments.

³The Taxable Wage Base is \$132,900 for tax year 2019 and \$137,700 for tax year 2020. May be adjusted for inflation in future years.

Brokerage Products: Not FDIC-Insured ▪ No Bank Guarantee ▪ May Lose Value

Important Disclosures

This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified tax advisor, CPA, financial planner or investment manager.

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