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SCHWAB

Employer Q&A

(Includes Self-Employed
Individuals)

Questions and
Answers About the
Schwab SEP-IRA

Own your tomorrow.

Here are answers to some questions you may have about a SEP-IRA. Whether you're self-employed or own a small business and employ others, a Schwab SEP-IRA plan is an easy and affordable way to invest for retirement. We suggest that you consult with your tax advisor before establishing your retirement plan.

Eligibility

I don't have employees and don't foresee hiring any. What does a SEP-IRA offer me?

A lot, actually. A SEP-IRA is a simple and flexible retirement plan. It lets you save—before taxes—up to the lesser of 25% of your compensation (20% if self-employed¹) or \$55,000 for 2018 and \$56,000 for 2019² each year for your own retirement. Your contributions are discretionary, so you don't need to sign new documents to change your contribution from year to year as your business becomes more successful. You can even skip making contributions for a year or two, if you wish. And there's no paperwork to file with the IRS. Just sign yourself up and contribute.

I own a small business with employees. I want to offer a retirement plan that helps them and me. Can a SEP-IRA do that?

Yes. A Schwab SEP-IRA lets you tailor your plan in ways that fit your business needs, and it is very flexible:

- You get to choose when your employees become eligible for your plan. For instance, you may decide that they should work for you for three years before they can participate. You can set a minimum age requirement, too.
- An integrated allocation formula can allow you to contribute extra for highly paid—and highly valuable—employees.
- You can change the contribution amount from year to year as your business's profitability changes. You aren't limited to any minimum amount. And you can wait to make your decision about what to contribute until you finalize your business tax return.

If I have employees, who's eligible to participate?

An employee is eligible to participate in your Schwab SEP-IRA plan if he or she is at least 18 years old, has worked for you during any three of the past five years and has earned at least the required minimum compensation for the current year (\$600).³ If you want, you can exclude employees who are covered by a collective bargaining agreement, nonresident aliens without U.S. income and certain acquired employees.

Leased employees—certain full-time workers paid through outside agencies—can't be excluded if they meet the age and service requirements. In addition, if you have leased employees, you can't use the IRS's model document (Form 5305-SEP). But the Schwab SEP-IRA will still work for you.

If you wish, you can make eligibility requirements more lenient than these rules, but not more stringent.

Are part-time employees eligible to participate?

Yes. You must include them in your plan if they meet the eligibility standards you choose: years worked, minimum age and compensation of more than \$600³ during the year. Anyone who works even a single hour is considered to have worked during that year.

Do these same eligibility standards apply to me?

Yes. The standards you choose apply to you as well as to your employees. For instance, if you elect a three-year waiting period, you won't be eligible to contribute for yourself until you've worked for your business for three years. Even if you have no employees now, these standards will apply to anyone you hire in the future.

If my spouse and I jointly own a business, do the same eligibility standards apply to my spouse?

Yes. If your spouse actively works for the business and receives compensation, the same standards you choose will apply to your spouse.

Are all of my eligible employees required to participate?

Yes. And if eligible employees don't participate, the IRS could disqualify the entire plan. It's important to consider participation as a consequence of employment.

Does an employee who leaves the company during the year still get to participate?

Yes. Even if he or she left your company during the year, an employee who met all the eligibility requirements during the year for which you're contributing is a participant.

What can I do if an eligible employee doesn't want to participate or can't be located?

You must establish a SEP-IRA on his or her behalf and contribute to it in any year in which you make contributions.

In a partnership, must all partners participate?

Yes. A SEP-IRA plan can't be set up for just one partner, because the partnership is considered the employer of each partner. This means that all partners must participate if they have earnings and meet the eligibility requirements.

Contributions

Must I contribute the same amount each year to my employees' SEP-IRA?

No. Contributions are discretionary, so you may vary the percentage of compensation that you contribute each year. You can even skip contributions for some years. But when you do contribute, you must contribute the same percentage for each employee and for yourself.

If my spouse and I jointly own a business, may the business make a contribution for my spouse?

Yes, but only if your spouse actively works for the business, receives compensation and meets the eligibility standards of your SEP-IRA plan.

When are SEP-IRA contributions vested?

All SEP-IRA contributions are immediately 100% vested.

If I open a SEP-IRA, can I also contribute to my personal IRA?

Yes. You and your employees can each contribute up to the lesser of \$6,000 (\$7,000 if you're age 50 or older)³ or 100% of your compensation to your personal IRAs. You'll be considered active participants in an employer-sponsored retirement plan for any year in which you make a SEP-IRA contribution. As a result, depending on your income and tax-filing status, some or all of the personal IRA contributions you and your employees make may not be deductible.

How much can I contribute?

Up to 25% of each participant's compensation or \$55,000 for 2018 and \$56,000 for 2019,² whichever is less. If you're self-employed or an owner-employee of an unincorporated company, you'll compute this figure differently for your own contribution. You'll find more details about this in the questions and answers that follow.

If I'm self-employed, how do I determine the income on which to base my contributions?

Use your self-employment income to calculate your contribution for the year. That's the income you earn from personal services to or on behalf of your business, as reported on Schedule C of IRS Form 1040, reduced by one-half of your self-employment tax. Your SEP-IRA contributions for employees—but not yourself—are subtracted as business expenses when determining your self-employment income.

How do I calculate my own SEP-IRA contribution percentage if I'm self-employed or an owner-employee?

Once you know your self-employment income, use a special contribution formula. It's designed to ensure that you receive a net tax benefit from the SEP-IRA equal to the one received by salaried employees.

Here's how to calculate your own contribution percentage: take the percentage you elected for eligible employees—for example, 25%—and then reduce that percentage as shown in the Conversion Formula in the chart below. In this example, your contribution percentage is 20%. If you have any outstanding questions about how to calculate contributions, be sure to ask your tax advisor.

SEP-IRA Contribution Percentage*

Percentage Contribution for Eligible Employee	Percentage Contribution for Owner-Employee
1%	0.9901%
2%	1.9608%
3%	2.9126%
4%	3.8462%
5%	4.7619%
6%	5.6604%
7%	6.5421%
8%	7.4074%
9%	8.2569%
10%	9.0909%
11%	9.9099%
12%	10.7143%
13%	11.5044%
14%	12.2807%
15%	13.0435%
16%	13.7931%
17%	14.5299%
18%	15.2542%
19%	15.9664%
20%	16.6667%
21%	17.3554%
22%	18.0328%
23%	18.6992%
24%	19.3548%
25%	20.0000%

* Source: Internal Revenue Service Publication #560 'Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)' or www.irs.gov/pub560. Percentages subject to change.

If I'm the owner of an incorporated company, how do I calculate my contribution percentage?

The same way you'd calculate the percentage for any salaried employee, since you're considered an employee of your corporation.

If my business doesn't make a profit during the year, may I still contribute to my SEP-IRA for myself? How about for my employees?

If your business isn't profitable, you have no self-employment income, so you can't make a contribution for yourself. If you wish, you may contribute on behalf of your employees, but you're not required to do so.

How do SEP-IRA contributions affect my business taxes?

Contributions you make for yourself and your employees are deductible business expenses, which could result in significant tax savings. Also, you pay no Social Security or federal unemployment tax on SEP-IRA contributions for employees. You might save on state taxes, too. Tax rules differ from state to state, so be sure to talk this over with your tax advisor.

How do SEP-IRA contributions affect my personal taxes?

For income tax purposes, SEP-IRA contributions aren't considered compensation for employees. If you're self-employed, your contribution is deductible, so you don't pay federal or state income taxes on the contributions or earnings until you withdraw the funds.

How do I send contributions to Schwab?

You can send in your contributions by Direct Deposit (ACH) or by mailing a check.

Direct Deposit (ACH)

- Contributions are initiated at your bank.
- Contact your bank to authorize the deposit of SEP-IRA contributions directly into each participant's SEP-IRA account.

If your bank allows electronic funds transfers, you'll need to provide the bank with information including:

- **Institution's Name:** JPMorgan Chase/Account of Charles Schwab

- **Address:** 211 Main Street, San Francisco, CA 94105
- **Phone:** 1-800-435-4000
- **Direct Deposit Routing Transit Number:** 071000013
- **Account Number:** 593853800XXXXXXXX (where "XXXXXXXX" represents the employee's eight-digit Schwab SEP-IRA account number)
- **Account Type:** Checking
- **Employee/Account Holder Name**

Check

Send contributions for you and your employees, if applicable, along with a letter that details each employee's account number and the exact amount to be deposited. Please note the following regarding your contribution checks:

- Be sure that the check total matches the total contribution amount(s).
- Make checks payable to CS&Co., Inc. FBO "your company name" (For example: CS&Co., Inc. FBO xxxxxxxx Partners)
- Checks should be mailed to your nearest Schwab Operations Center, using one of the addresses below.

If you reside in AK, AZ, CA, CO, HI, IA, ID, KS, MT, ND, NE, NM, NV, OK, OR, SD, TX, UT, WA, WY, Armed Forces Americas or Armed Forces Pacific, please mail your contributions and instructions form to:

Charles Schwab & Co., Inc.
El Paso Operations Center
P.O. Box 982600
El Paso, TX 79998-2600

If you reside in AL, AR, CT, DC, DE, FL, GA, IL, IN, KY, LA, MA, MD, ME, MI, MN, MO, MS, NC, NH, NJ, NY, OH, PA, RI, SC, TN, VA, VI, VT, WI, WV, Armed Forces Europe, American Samoa, Guam, Marshall Islands, Northern Mariana Island or Puerto Rico, please mail your contributions and instructions form to:

Charles Schwab & Co., Inc.
Orlando Operations Center
P.O. Box 628291
Orlando, FL 32862-9925

Investment Choices

What investment choices are available for my Schwab SEP-IRA?

Schwab offers investment choices to help each participant tailor a portfolio that's right for them. Participants may select from a full range of investments and services—including mutual funds, stocks, fixed income securities, bonds, options, and investment advisory products—all in one convenient place.

What are investment advisory products?

Schwab's investment advisory products are a suite of fee-based investment service offerings that will provide your eligible plan participants with ongoing support and discretionary portfolio management. As the plan sponsor, you decide whether or not to offer investment advisory products under your plan. There is no cost to you as the plan sponsor for making these products available to participants in your plan. The fees will apply only to those eligible participants who decide to enroll in these products.

How do I make investment advisory products available for my plan?

You don't need to do anything to make investment advisory products available under your plan. However, if you decide not to offer investment advisory products as an investment choice under your plan, you must complete and sign an Investment Advisory Products Opt-Out Form and return it to Schwab.

You can change your decision at any time by notifying us in writing.

Distributions

May I withdraw funds from my SEP-IRA?

While SEP-IRA funds are meant for retirement, you can withdraw funds (take distributions) at any time by logging on 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. The distribution amount will be subject to ordinary income tax. If you make a withdrawal before age 59½, you may have to pay a 10% federal tax penalty as well. State tax penalties may also apply.

Integrated SEP-IRAs

What is integration? Is it approved by the IRS?

Integration is a special way of computing SEP-IRA contributions so you can provide larger contributions to highly paid employees based on their total compensation. These are in addition to the contributions that other employees receive. Integration is approved by the Internal Revenue Code and IRS rulings and interpretations.

Why would I want to use an integrated SEP-IRA?

You might want to if you wish to make larger contributions, percentage-wise, for yourself and other owners and key employees with fairly large salaries. These integrated contributions would represent a higher percentage of compensation than those contributions made for lower-paid employees.

How much of an extra contribution can I make in an integrated SEP-IRA?

Your tax advisor can help you determine how much more you could possibly contribute each year.

How does an integrated contribution formula work?

Instead of contributing the same percentage of compensation to the SEP-IRAs of all participants, you'd make a series of contributions. Some would be based on total compensation, others on excess compensation. Lower-paid participants have no excess compensation, so they wouldn't share in all contributions. An integrated contribution formula is a complex calculation. Your tax advisor can help you calculate an integrated contribution formula and provide you with a schedule of projected contributions.

Administration and Rules

When can I establish a SEP-IRA?

You may establish and fund your SEP-IRA up until your business's tax-filing date, including any extensions.

Can I get a tax credit for my costs to set up my plan?

Yes. For plans opened January 1, 2002, and later, employers with no more than 100 employees can receive a tax credit for the costs to establish and administer a SEP-IRA plan, or to educate employees about retirement planning. You can claim a credit of up to \$500 for each of the plan's first three years.⁵

Do I have to file any documents with the IRS when I open my company's SEP-IRA?

No.

Can an existing SARSEP Plan adopt the Schwab SEP-IRA?

Yes. If your business opened a SARSEP Plan (a special SEP permitting salary reduction contributions) on or before December 31, 1996, you can adopt the Schwab SEP-IRA as an amendment and restatement of your current SARSEP Plan.

Remember that special requirements and restrictions apply to SARSEPs—a minimum participation rule, a limit on the maximum number of eligible employees, a nondiscrimination rule and other special provisions. Because we don't discuss those rules here, you should consult your tax advisor to make sure your SARSEP remains in compliance with all applicable rules.

New SARSEP Plans may not be established after December 31, 1996. New SARSEP accounts may be opened for plans established before that date.

Can I use IRS Form 5305-SEP to establish a plan at Schwab?

Yes. While the Schwab SEP-IRA is a flexible prototype plan, you may choose to establish a SEP-IRA using IRS Form 5305-SEP. To do so, obtain and return a signed copy of IRS Form 5305-SEP to us, rather than the Schwab SEP-IRA Adoption Agreement. You must still sign and return a Schwab IRA Account Application and Employer's Agreement with Schwab.

Can I combine my personal IRA with my SEP-IRA?

Yes. You can either combine your personal IRA(s) into your Schwab SEP-IRA or keep your personal IRA and your SEP-IRA separate.

Are the rules for a personal IRA and a SEP-IRA the same?

Generally, yes, aside from these three exceptions:

- **Maximum annual contribution:** You can contribute as much as 25% of your eligible compensation—a maximum of \$55,000 for 2018 and \$56,000 for 2019³—to your SEP-IRA. To your personal IRA, you're allowed to contribute up to the lesser of \$6,000 (\$7,000 if you're age 50 or older)³ or 100% of your compensation.
- **Timing of contributions:** You can make SEP-IRA contributions for the previous tax year up until the tax-filing date, including extensions, for your business. Personal IRA contributions must be made by April 15 of the following year, with no extensions.
- **Cutoff age for contributions:** You may make SEP-IRA contributions for yourself or an eligible employee who is age 70½ or older. With a personal IRA (other than a Roth IRA), contributions must stop when you reach age 70½.

What kind of information do I need to provide my employees about their SEP-IRAs?

You're required to distribute the Schwab SEP-IRA Employee Enrollment Kit and the Schwab SEP-IRA Plan Employee Summary to every eligible employee. Download a Schwab SEP-IRA Employee Enrollment Kit from Schwab.com or call 1-800-435-4000 to order one for each employee. Then, each year, you must inform employees in writing of the amount contributed that year to their SEP-IRAs and the formula you used to calculate their contributions.

¹ IRS Form 5305-SEP is available at www.irs.gov.

How do I obtain additional forms and documents necessary for the ongoing administration of my plan?

All of the forms required for ongoing plan administration are available online at Schwab.com. You can either complete the forms online before printing or you can print them and complete them by hand. Regulatory documents, such as the SEP-IRA Basic Plan Document, can also be accessed online.

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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.

Options carry a high level of risk and are not suitable for all investors. Certain requirements must be met to trade options through Schwab. Please read the Options Disclosure Document titled "Characteristics and Risks of Standardized Options" before considering any option transaction. Call Schwab at 1-800-435-4000 for a current copy. Supporting documentation for any claims or statistical information is available upon request.

¹Special rules apply when computing deductible contributions for self-employed individuals. This percentage of the business' net earnings, after subtracting the self-employment tax deduction and taking into account the deduction for your SEP-IRA contribution, is equivalent to the employee percentage given.

²For tax years 2018 and 2019. May be adjusted for inflation in future years.

³For tax years 2018 and 2019. Federal law provides for certain future increases and inflation adjustments.

⁴The Taxable Wage Base is \$128,400 for tax year 2018 and \$132,900 for tax year 2019. May be adjusted for inflation in future years.

⁵The tax credit is subject to certain limits and restrictions. Please consult your tax advisor for information regarding your particular situation.

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