

Midland Area Transportation Study

SEP IRA Contributions for MATS Employees

As of April 24, 2020 Bryan Gillett eligible and required to be receiving Simplified Employee Pension (SEP) IRA through MATS.

SEP IRA rules:

Maximum contribution is the lesser of \$57,000 (for 2020, changes annually) or 25% of employee compensation,

Employer must contribute equally for all eligible employees (allocations proportional to employees' compensation (salaries+commissions+bonuses+overtime), i.e contributions based on same percentage of compensation),

Employer permitted flexible annual contributions, as long as annual SEP plan contribution rate is same for all employees,

Employee is always 100% vested in all contributions,

Contributions are made on a pre-tax basis, lowering the employees' taxable income for the year of the contribution,

Loans from SEP IRAs are not permitted, early withdrawals face a 10% extra tax if the withdrawer is younger than 59.5,

Only the employer contributes to the account, no annual employer reporting required.

Current situation:

Maja receives \$10,000 annually as SEP IRA contribution since 2013. As only eligible employee to date, there was no need to establish contribution rate till now.

Utilizing Maja's CY 2019 W2: current SEP contribution rate is **11.85%** (based on compensation of \$84,377.45)

To be resolved:

What should be MATS SEP IRA contribution rate?

Utilizing rate of 11.85%, Bryan's SEP contribution equals to \$5,956, based on his CY 2019 W2 compensation of \$ 50,258.67).

Should that contribution rate be adjusted annually (per recommendations through administrative subcommittee) or should it be set and same for foreseeable future, i.e. next few years?

Should annual adjustments to \$ amounts of SEP contributions be done Oct 1 each year (beginning of each fiscal year), or should they be done around February 1 each year (when W2s are issued)?