Retirement Reimagined®

ADVANTAGES OF A SEP IRA PLAN

Key benefits:

Tax-deferred growth of your investment earnings and contributions

Full and immediate vesting of all contributions

Who can participate in a SEP IRA plan?:

A SEP IRA plan is designed for employees of small businesses and self-employed individuals.

How do SEP IRA plans work?:

Each eligible employee or self-employed individual establishes, owns and controls his or her own IRA, and the employer makes contributions to each IRA.

A SEP IRA offers small-business employees and self-employed individuals a way to save for retirement. Have you considered participating in your employer's Simplified Employee Pension (SEP) IRA plan?

Highlights

Coverage requirements

A SEP IRA plan must cover employees:

- Who earn at least $600 in 2018 and 2019.
- Who have worked at your company for at least three of the five immediately preceding calendar years.
- Who are at least age 21.

Contributions

The employer determines the amount of any SEP IRA contributions.

- Contributions for any year are not required, and are made at the employer's discretion.
- All eligible employees must receive the same percentage (up to 25%) of earned income or compensation[1], subject to a maximum contribution of $55,000 for 2018 ($56,000 for 2019).
- All contributions are fully and immediately vested.
- SEP IRA contributions do not limit your ability to make Roth or Traditional IRA contributions, but the Traditional IRA deduction is subject to phaseout based on income limits.

[1] For self-employed individuals, earned income is equal to net earnings reduced for 50% of the individual's self-employment tax and contributions to the individual's own SEP IRA. Earned income and compensation taken into account must be limited to $275,000 for 2018 ($280,000 for 2019).

Source: IRS Publication 560 (3/12/2018); IRS Form 5305-SEP; IR-2018-211 (11/1/2018); IR-Notice 2018-83.

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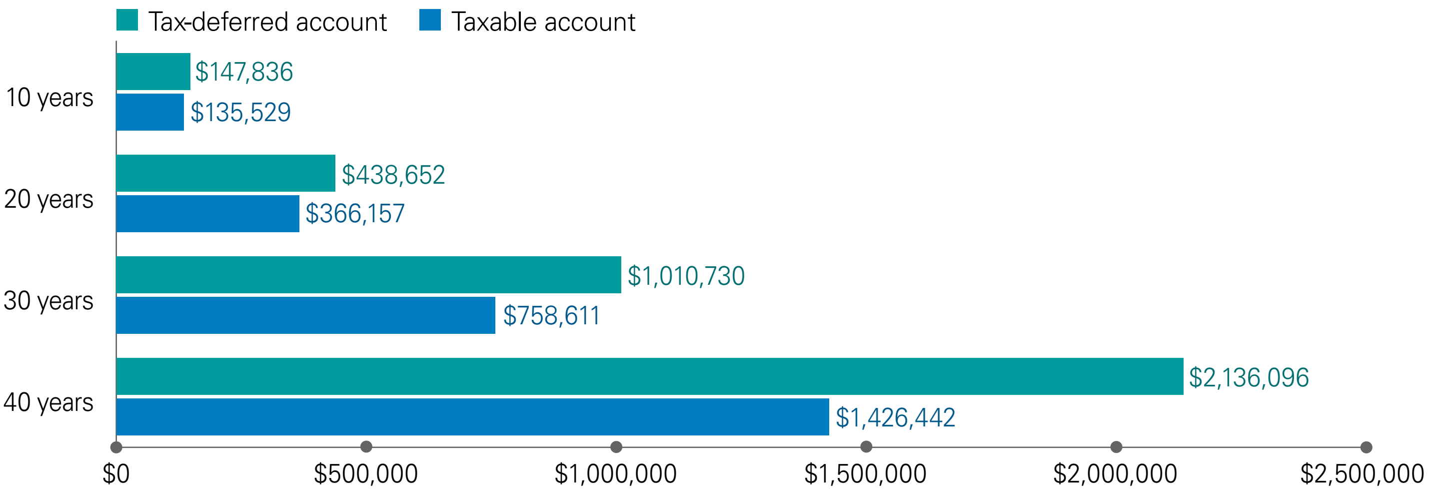
INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

The power of tax-deferred compounding

In a tax-deferred account, you will not pay taxes on your contributions or account earnings until you take withdrawals — which can make a significant difference over time. To understand how much of a difference, consider the following hypothetical illustration:

Growth of annual contributions of $10,000 at a hypothetical annual return rate of 7%



Source: Legg Mason, 2019. The above illustration assumes a $10,000 annual investment, and a hypothetical annual return rate of 7%, compounded annually over 10-, 20-, 30- and 40-year periods, and does not represent an actual investment. For purposes of the illustration, it has been assumed that the taxable account will generate a combination of long-term capital gains and qualified dividends taxable at a rate of 15% under current federal income tax law,[2] and short-term capital gains and interest taxable as ordinary income (taxable at a rate of 24%), resulting in an annual blended federal tax rate of 22%. This illustration assumes that no distributions are made from the tax-deferred account during or at the end of such period, and that taxes applicable to the taxable account are paid out of such account each year. Actual investments may include fees, charges and other expenses that would affect an investment's return. Changes in tax rates and tax treatment of investment earnings may impact the comparative results. This illustration is not representative of any investment product. Actual returns will vary. The assumed rate of return is not guaranteed. Withdrawals from a tax-deferred account are taxable as ordinary income in the year made, and early withdrawals prior to age 59½ are generally subject to a 10% additional federal tax. The impact of taxes on tax-deferred withdrawals is not reflected in the above illustration. If reflected, such impact would make the accumulations of assets in the tax-deferred account relative to the accumulation of assets in the taxable account look less favorable.

Consider the following hypothetical example

- Annual $10,000 payroll contributions are made to a tax-deferred account. Assuming 40 years of contributions, and a 7% hypothetical return, the tax-deferred account will have a pre-tax value of about $2.1 million at the end of the period, representing a gain of approximately $1.7 million ($2,136,096 pre-tax value minus $400,000 investment amount[3]).
- If the $10,000 is received as current taxable compensation and invested into a taxable account subject each year to a blended 22% federal tax rate, the account would accumulate about $1.4 million over the same period, with growth that just exceeds $1,000,000 ($1,426,442 taxable account value minus $400,000 investment amount[3]).
- The growth of the tax-deferred account beats the taxable account by over $700,000 due to the power of tax-deferred compounding. Please note that distributions from a tax-deferred account are taxed as ordinary income in the year made and early withdrawals prior to age 59½ generally are also subject to a 10% additional federal tax. The impact of such taxes is not reflected in the above illustration.
- Your actual experience will vary depending on your actual investment returns and your specific tax rate (which may be more or less than the figures shown). Capital gains and qualified dividends may receive more favorable tax treatment within a taxable account relative to a tax-deferred account due to the lower rates currently available to long-term capital gains and qualified dividends and the fact that all distributions from a tax-deferred account are taxed as ordinary income. You should consider your investment time horizon and tax brackets, both current and anticipated. **All investments involve risk, including possible loss of principal.**

[2] The tax rate on long-term capital gains and qualified dividend income is 20% for high-income taxpayers. Capital gains and dividend income is subject to an additional 3.8% tax on "net investment income" for taxpayers with modified adjusted gross income over $200,000 (single persons)/$250,000 (married persons filing jointly).

[3] The $400,000 investment account was calculated by multiplying the annual $10,000 investment by 40 years. Please note that for the taxable account, in order to be able to invest $400,000 you will have had to earn a higher amount because your investment is made on an after-tax basis.

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