

Going Solo: A Non-Traditional Retirement Savings Plan



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WORKING FOR YOURSELF CAN HAVE ITS ADVANTAGES. You decide when and how hard to work, and you get the business profits. And even though you don't have access to an employer's retirement plan, you have more control over what type of plan you can benefit from. This often means you can enhance your retirement savings and pay less tax.

Many small business owners, and in particular those without any employees, are unfamiliar with what their retirement plan options may be. And even those who are contributing to the most common plans for these types of small businesses — SEPs, SIMPLEs, Traditional IRAs — do not realize that there is another choice available: the 'Solo K.'

Solo K is the name often used to refer to a 401(k) plan with one participant, usually the business owner. In most cases, it allows the business owner to save more for retirement than those other more common plans and to pay less tax.

For those under age 50, the maximum amount that can be contributed to a traditional IRA is \$6,000 for 2021. If a SIMPLE IRA plan is in place, the maximum is \$22,200. And if either a SEP or Solo K is used, the maximum is \$58,000. But for the business owner with income of less than \$290,000, the Solo K will allow for higher contributions than the SEP.

Here's an example for a one-person business with an owner under age 50 and \$100,000 income for the year:

- If the owner has a traditional IRA, he or she may contribute up to \$6,000. And this contribution may or may not be tax deductible.
- If the business has a SIMPLE in place, the owner may contribute up to \$16,500. This would be tax deductible.

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- If the business has a SEP in place, the owner may contribute up to about \$20,000. This would be tax deductible.
- But if there's a Solo K, the owner can put away about \$39,500 and deduct that from taxable income.

Given these various plan options, the myriad rules governing them, and the variety of individual circumstances among business owners, it's critical that the financial advisor conduct a thorough analysis to determine what makes the most sense for the client and then clearly explain how the recommended plan works and why it's optimal.

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