Self-employed Retirement Savings

When you’re self-employed, *you* need to prepare for your future. You don’t have an employer providing any backup. But you can save for your future financial needs through a tax-favored retirement plan.

If you’re self-employed or the owner of a small company, you should be able to find a plan that fits your needs. Some possibilities follow.

Flying Solo

If it’s just you and your business, a solo 401(k) plan may be an attractive choice. For 2014, the tax law lets you defer up to $17,500 of your compensation as a regular 401(k) deferral *and* make additional contributions to the plan up to 25% of compensation (or 20% of net self-employment income). Total 2014 contributions generally can’t exceed $52,000 or 100% of compensation, whichever is less.

If you are age 50 or older, you can also make an additional “catch-up” contribution. You choose how much to contribute to the plan each year, within tax law limits. When profits are down, you don’t have to make any contribution at all.

A SIMPLE Solution

With a SIMPLE retirement plan, you — and your eligible employees — can defer up to $12,000 of compensation in 2014. The plan may allow participants age 50 or older to make additional catch-up contributions of up to $2,500 (in 2014). And you are required to contribute in one of two ways: by matching employee contributions dollar for dollar, up to 3% of compensation, or by making a contribution of 2% of compensation for each employee who’s eligible to participate in the plan.

SEP to the Future

A simplified employee pension (SEP) plan may be ideal if your business has mostly lower paid employees and high turnover. Plan fees are generally low, and you can contribute 25% of your compensation — or 20% of net self-employment income — up to a maximum of $52,000 in 2014.

If you do have employees, you must contribute for each one who meets the plan eligibility criteria at the same percentage of compensation as yourself. However, you can vary the contribution amount from year to year and forgo making any contributions in years when profits drop.

Kudos for Keoghs

A Keogh plan for the self-employed may be structured as a defined contribution plan (e.g., a profit sharing plan) or a defined benefit plan. Annual contributions to a profit sharing plan may vary, but are limited in 2014 to 20% of net self-employment income or $52,000, whichever is less.

With a defined benefit plan, an actuary determines how much must be contributed each year to fund the pension benefits promised under the plan. Tax law limits apply.

Note, if you are establishing a new plan, a tax credit may be available for half of the first $1,000 in administrative and retirement-related education expenses for each of the first three plan years.

Set-up for some plans can be complicated, so you’ll probably want help from your financial professional.