

Can I have my own OWN 401(k)?



The introduction of the 401(k) in the early 1980s changed the way most Americans save for retirement. Providing a means for employees to save amounts larger than allowed in a traditional IRA, deferring taxes on those savings and having a wide range of investment choices has created a benefit for employees second only to employer-provided healthcare. Our economy is changing

with the growth of the “gig economy.” The growth of the service economy and the capabilities of technology have created an explosion of opportunities for the self-employed, contract worker and small business. But where does that leave the prudent saver for their retirement? Well, there are options.

Unknown to many, an individual or small partnership of self-employed can have their own 401(k) and this can be done at a reasonable cost. Certainly at a cost that makes sense given the benefits. A traditional IRA allows for \$6,000 in annual contributions (\$7,000 if over 50 years old) in 2019. A 401(k) permits up to \$56,000 in combined salary deferral and profit sharing, \$62,000 if you are over 50. Clearly, the 401(k) provides a better vehicle for retirement savings in a tax-deferred vehicle. Another option for the self-employed is a SEP IRA, which provides for the same maximum as the 401(k), but how you get there generally favors the 401(k) for situations below the maximum.

The specifics of the 401(k) limits are the ability to defer up to \$19,000 of compensation (\$25,000 if over 50) plus profit sharing up to 25% of total compensation. The SEP IRA only permits the deferral of 25% of compensation.

There are also very cost-effective 401(k) options for small businesses with only a few employees. In today’s tight market for employees, there is an increasing importance placed on benefits to attract quality employees and a 401(k) plan, with or without employer matches, is an important benefit for potential employees and a way to differentiate you as an employer.

Another feature available with the 401(k) that is not available with other retirement savings vehicles is the ability to borrow a portion of your balance. This feature is included as an incentive to encourage a higher savings rate because you have access to your funds in an emergency. While definitely not a preferred



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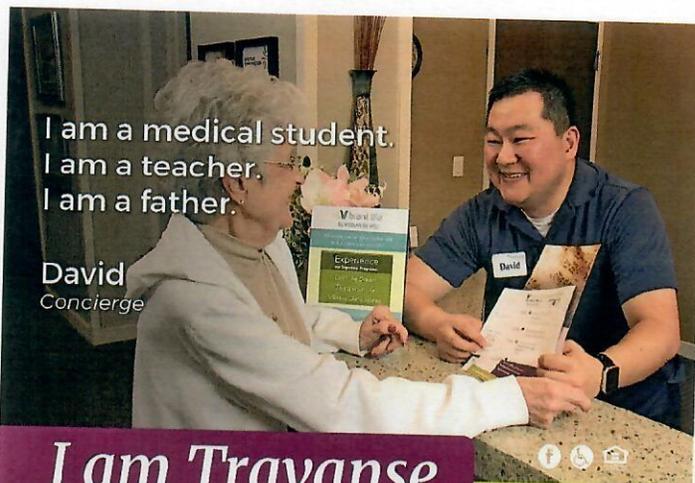
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action, borrowing a portion of your retirement funds, it does provide access to capital without taking a straight distribution. Taking a distribution results in both income taxes on the distribution plus a 10% penalty if you are under 59 1/2. Any 401(k) loan does need to be repaid over a five-year period, but if you are setting up your own business as a self-employed, capital may be scarce. Additionally, the interest you pay on the loan is paid to yourself back into your 401(k).

Building savings for our retirement is difficult in an ideal world. Being self-employed or working as a contract employee can make that even more difficult. Establishing an individual 401(k), or one for your small business if you have employees, can make a big difference for you and your family and any employees and theirs.

The state of Illinois has implemented a state-sponsored plan for employers with at least 25 employees. By November of this year, any employer with at least 25 employees must either offer a plan or participate in the state-sponsored plan (earlier for larger employers). While the thought behind this requirement is good, the state of Illinois is not the best fiscal manager and there is something to be said for having control of such an important employee benefit.

If this is an area of interest for you or your business, contact a professional advisor involved in the qualified plan market.



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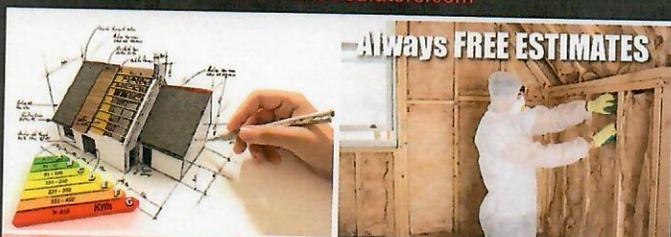
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