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Retirement Plans for Self-Employed and Small Business

Saving for retirement is one of the major goals of personal and family savings efforts emphasized by America Saves Week www.americasaves.org. This has been much easier for people working for an employer that offers retirement benefits. However, retirement planning for the entrepreneur has been primarily growing net worth through the years. Then, someday selling out and retiring on the proceeds of the sale. However, if you want to pass down some wealth to your children or grandchildren, this selling out option creates a large debt burden on your family. What other options are there?

As a self-employed person or the owner-operator of a small business, you have many of the same options to save for retirement on a tax-deferred basis as employees participating in company plans. Starting a retirement saving plan can be easier than most business owners think. What's more, there are a number of retirement programs that provide tax advantages to both employers and employees of small businesses. Employer contributions are deductible from the employer's income. Employee contributions (other than Roth contributions) are not taxed until distributed to the employee. And, money in the plan grows tax-free. Here are some highlights of your retirement plan options.

Simplified Employee Pension (SEP) allow individuals to contribute as much as 25 percent of their net earnings from self-employment, up to \$54,000 for 2017. This plan must be established with the IRS Form 5305-SEP; then open a SEP-IRA through a bank or other financial institution. This plan may be established as late as the due date of your income tax return for that year.

401(k) Plan allows annual salary deferrals up to \$18,000, plus an additional \$6,000 if you are 50 years or older. This can be either on a pre-tax basis or as a designated Roth contribution. Additional contributions up to 25 percent of your net earnings from self-employment can be added up to \$54,000 for 2017. Tailor your plan to allow access to your account balance through loans and hardship distributions.

Savings Incentive Match Plan for Employees (SIMPLE IRA Plan) allows you to put all your net earnings from self-employment in the plan, up to \$12,500 in 2017, plus an additional \$3,000 for folks 50 or older, plus either a 2 percent fixed contribution or 3 percent matching contribution. Complete the IRS Form 5305-SIMPLE or 5304-SIMPLE; then open a SIMPLE IRA through a bank or another financial institution.

Two other options exist for small businesses. The Defined Contribution Plans have a Profit-sharing option and a Money Purchase plan. And, there are Defined Benefit plans structured like a traditional pension plan with specified annual benefits.

Go to the Internal Revenue Service website at www.irs.gov to learn more about these retirement plans for self-employed people. Also consult your tax accountant to thoroughly discuss these options. As with any savings or investment goal, the earlier in life you begin, the more successful you may become using compound interest to help grow your money over time.

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