Solo 401(k) Plans

A sound strategy for helping self-employed business owners:

reduce taxes and save more for retirement

Establishing a retirement plan allows business owners to take advantage of tax-deductible contributions and tax-deferred savings to help create an additional source of retirement income, so they are not completely dependent on the sale of their business to provide this income. Self-employed individuals also can establish a special type of retirement plan with some key advantages.

A Solo 401(k) plan is available to a business owner with no employees. Businesses that employ the owner's spouse or have multiple owners may also establish a Solo 401(k) plan. This type of plan will allow a participant to make contributions in two capacities:

- Employee Elective Deferrals[1]
- Employer Profit Sharing Contributions[1]

With both contribution options available, a Solo 401(k) plan provides eligible business owners with a higher ceiling for contributions than many other retirement plans. Solo 401(k) plans can also be established in a more time efficient manner with less costs than other retirement plans.

Flexible premium annuities can be used as the funding vehicles within a Solo 401(k) plan. Participants may also use some of their plan contributions to fund life insurance policies issued inside of the plan on a pre-tax basis.[2]

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Consider the following example:

John, 50, is an attorney with no employees at his practice. His business is taxed as an S corporation. This year he is expecting to pay himself $100,000 in W2 income. His options for retirement savings include the following.

Type	2024 Contribution Limit
Traditional IRA	$7,000 + $1,000 Catch-Up (50 and over)
SEP IRA	$25,000 (lesser of 25% of compensation or $69,000)
Solo 401(k)	Salary Deferral: $23,000 + $7,500 catch-up (50 and over)
	Employer Contribution: (25% of compensation) $25,000
	Total Plan Contribution: $55,500

If John is in a 35% tax bracket, establishing a solo 401(k) and contributing $55,500 per year will save him $19,425 in taxes. John can also use some of the contribution as premium for a permanent life insurance within the plan which can provide him with valuable death benefit protection as well as cash value accumulation potential.

This material is to be used for informational purposes only. Individuals should consult with a tax professional for advice specific to their situation.

1 Salary deferrals are limited to the lesser of 100% of eligible compensation or the annual contribution limit specified by the IRS. Employer profit sharing contributions cannot exceed 25% of eligible compensation. The total aggregate contribution made on behalf of any plan participant may not exceed the IRS limit for the particular year.

2 Life insurance issued inside of a qualified retirement plan must comply with the IRS' incidental limits. Participants with life insurance inside of a qualified plan will be taxed annually on the PS-58 costs of the coverage. Participants applying for life insurance inside of a qualified plan will be subject to underwriting.