

## **Self-Employed 401(k) Plans**

If you're self-employed or own a small business, you've probably considered establishing a retirement plan. You may have heard of simplified employee pensions (SEPs) and savings incentive match plans for employees (SIMPLE) IRA plans. I'd like to introduce you to a plan that may offer a better combination of benefits, an Individual 401(k) plan.

**What is an individual 401(k) plan?** - An individual 401(k) plan is like a regular 401(k) plan combined with a profit-sharing plan. However, unlike a regular 401(k) plan, an Individual 401(k) plan can be implemented only by self-employed individuals or small business owners who have no other full-time employees (you can employ your spouse).

**What makes an individual 401(k) plan attractive?** - Your allowable contribution to an Individual 401(k) plan will be as large or larger than you could make under another type of retirement plan. With an Individual 401(k) plan you can elect to defer up to \$15,500 of your compensation to the plan for 2007 (\$20,500 if you are age 50 or older by the end of the calendar year), just as you could with any 401(k) plan. In addition your business can make a maximum tax-deductible contribution to the plan of up to 25 percent of your compensation (slightly less than that if you are a sole proprietor or unincorporated).

You can design your individual 401(k) plan to let you designate all or part of your elective deferrals as Roth 401(k) contributions. All earnings on your Roth 401(k) contributions are free from federal income tax if your distribution is "qualified."

**Other advantages of an individual 401(k) plan** - Large potential annual contributions and straightforward administrative requirements are appealing, but individual 401(k) plans also have other advantages, which are shared by many other types of retirement plans:

Your business's contribution to the plan is tax deductible. Contributions to an individual 401(k) plan are completely discretionary. You always have the option of reducing or even suspending plan contributions if necessary. An individual 401(k) plan can allow loans and may allow hardship withdrawals if necessary. An individual 401(k) plan can accept rollovers of funds from another retirement savings vehicle, such as an IRA, a SEP, or a previous employer's 401(k) plan. Because Individual 401(k) plans are simpler to manage than regular 401(k) plans, they are less expensive to administer.

**Disadvantages of an individual 401(k) plan** - Despite its attractive features, an individual 401(k) plan is not the right option for everyone. Here are a few potential drawbacks:

An Individual 401(k) plan, like a regular 401(k) plan, must follow certain requirements under the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code (IRC). There is a cost associated with establishing and administering an individual 401(k) plan. If your business grows and you hire a full-time employee who is not your spouse, you can no longer have an Individual 401(k) plan. You will have to stop the plan, convert to a regular 401(k) plan and profit-sharing plan, or find another retirement plan option. Is there still time to establish a 401(k) plan for this year? Individual 401(k) plans must be established before the employer's fiscal year end. If this sounds like a retirement option for your business, contact your financial advisor or call our office for more information.

*Sydney Riccio is a Coto resident, a financial advisor with Cooper McManus, a Representative with Securities America, a registered Broker/Dealer, member FINRA/SIPC, and a certified college funding advisor. For more information, contact (800) 516-5333 x 121 or [www.SydneyRiccio.com](http://www.SydneyRiccio.com). CA Insurance License 0E01624. Advisory services offered through Cooper McManus, Inc., a SEC Registered Investment Advisory firm. Securities offered through Securities America, Inc. Cooper McManus and Securities America are unaffiliated.*