

The Updated Retirement Plan Menu of the Self-Employed (and Those That Work for Them)

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When a typical employee starts a job, they are usually offered a pre-set menu of retirement savings plan options. The choices usually involve whether to participate, which to participate in, and how much to participate. These limited choices can, in turn, limit the tax benefits available to those employees as well.

The self-employed, on the other hand, get to set their own menu. This means the options are greater for them and their employees. For those that are self-employed, solo practitioners, or sole proprietors, the menu can almost seem to be without limits.

The number of self-employed (and their employees) makes up almost 1/3 of total employees¹. Those self-employed make up about 10% of all workers². Below we will explore the options for this growing percentage of the labor force...the self-employed.

Traditional and/or Roth Individual Retirement Accounts (IRAs)

For many just starting a business from scratch, the initial plan choice is likely an IRA. This is a very basic “plan” to establish, contribute to, and maintain. There is very little, if any, administration of the plan and very little to no overhead costs as well.

¹ Kochhar, Rakesh (2021, November 3) *The self-employed are back at work in pre-COVID-19 numbers, but their businesses have smaller payrolls* Pew Research Center. <https://www.pewresearch.org/fact-tank/2021/11/03/the-self-employed-are-back-at-work-in-pre-covid-19-numbers-but-their-businesses-have-smaller-payrolls/#:~:text=In%202020%2C%20self%2Demployed%20workers,110.5%20million%20to%2098.7%20million.>

² Gluska, Justin (2026, February 19) *How Many Americans Are Self-Employed in 2026? (Stats by Industry, Income, and State)* [https://carry.com/learn/self-employed-americans#:~:text=Self%2DEmployment%20Rate%20and%20Total,of%20Labor%20Statistics%20\(BLS\).](https://carry.com/learn/self-employed-americans#:~:text=Self%2DEmployment%20Rate%20and%20Total,of%20Labor%20Statistics%20(BLS).)

Coincidentally, this type of account (especially the Traditional version) is likely to be the rollover destination for most, if not all, of your other retirement plans once you are done working.

- *Plan Type: Individual - No ties to the employer.*
- *Setup: Easy*
- *Administration: Little to None*
- *Costs to Setup & Maintain: Little to None*
- *Annual Contribution Limit: \$7,500 (\$8,600 with catchup in the year you turn 50 and later)*
- *Tax Benefits: Beneficial to make an annual decision on which type to utilize.*
 - *ROTH IRA Benefit – tax free growth if distributed after age 59 ½. Here the contribution itself has income limitations and is non-deductible. All other factors equal, the Roth IRA should be utilized in lower income years.*
 - *Traditional IRA Benefit – maximum annual tax deduction equal to the annual contribution limit but the deduction is subject to income limits. All other factors equal, the Traditional IRA should be utilized in “higher” income years relative to the Roth IRA.*

Solo 401(k)

If you still have no employees and the company income has outgrown the IRA options relative to the tax benefits provided by them, a Solo 401(k) may be worth considering. You are unable to utilize this option if you hire any employee other than your spouse.

- *Plan Type: Employer*
- *Setup: Easy*
- *Administration: Little (for accounts under \$250,000). Additional regulatory filings are required for those above.*
- *Costs to Setup & Maintain: Little to None*
- *Annual Contribution Limit: \$72,000 (\$80,000 with catchup in the year you turn 50 and later) or 100% of earned income, whichever is less.*
 - *Employee Portion (Employee Deferral): \$24,500 (\$32,500 with catchup after age 50)*

- *Employer Portion: 25% of compensation (or 25% of net self-employment income for single-member LLCs or sole proprietors). Compensation up to \$360,000 is applicable for consideration.*
- *NEW: A “Super” Catch-up is now available for those aged 60-63 of \$11,250*
- *Tax Benefits: Current deduction for contributions and tax-deferred growth. Taxed at time of distributions beginning after age 59 ½. Much like an IRA, there is a ROTH option available which offer potentially tax-free growth.*
 - *NEW: If your wages are greater than \$150,000, then any catch-up contributions must be directed to a ROTH account.*

Simplified Employee Pension (SEP IRA)

The Simplified Employee Pension is necessary to consider once you, as a self-employed individual, begin to hire an employee or employees (other than your spouse). Sometimes you may need more help (other than your spouse) and sometimes working with your spouse may not work out.

- *Plan Type: Employer but with Individual Participant IRAs*
- *Setup: Easy*
- *Administration: “Simplified”*
- *Costs to Setup & Maintain: Little to None*
- *Annual Contribution Limit: Contributions as a percentage of salary MUST be the same for ALL employees (owner/ employee included).*
 - *Employee Portion (Employee Deferral): None*
 - *Employer Portion: \$72,000 or 25% of compensation (25% of net self-employment income for single member LLCs or sole proprietors), whichever is less. Compensation up to \$360,000 is applicable for consideration.*
- *Tax Benefits: Current deduction on contributions for the “employer” and tax-deferred growth. For the individual, taxed at time of distributions beginning after age 59 ½. No ROTH option available.*

A Savings Incentive Match Plan for Employees (SIMPLE IRA)

As you grow in the number of employees and/ or the payroll dollar amounts, another option may prove useful. This option is available to employers with less than 100 employees.

- *Plan Type: Employer, but with Individual Participant IRAs*
- *Setup: Easy to More Involved*
- *Administration: Easy to More Involved*
- *Costs to Setup & Maintain: Little*
- *Annual Contribution Limit:*
 - *Employee Portion (Employee Deferral): \$17,000 (\$21,000 with catchup in the year you turn 50 and later) subject to a total of \$20,500 (\$27,000 with catchup after age 50) for ALL employer plans.*
 - *NEW: A small employer limit of \$18,100 is now available for companies with 25 or fewer employees with a catchup of \$3,850.*
 - *NEW: A “Super” Catch-up is now available for those aged 60-63 of \$5,250*
 - *Employer Portion: Matching of employee contributions up to 3% of compensation OR a fixed 2% for all eligible employees. Compensation up to \$360,000 is applicable for consideration.*
 - *NEW: Employers of 26 to 100 employees choosing to match up to 4% of employee compensation may allow their employees to make higher contributions*
- *Tax Benefits: Current deduction for contributions and tax-deferred growth. Taxed at time of distributions beginning after age 59 ½. No ROTH option available.*

401(k)

This is the plan most W-2 employees utilize at non-self-employed employers and can be an option for those self-employed with a great number of employees.

- *Plan Type: Employer*
- *Setup: Involved*

- *Administration: Involved*
- *Costs to Setup & Maintain: Relatively Expensive*
- *Annual Contribution Limit: \$72,000 (\$80,000 with catchup in the year you turn 50 and later) or 100% of earned income, whichever is less.*
 - *Employee Portion (Employee Deferral): \$24,500 (\$32,500 with catchup after age 50)*
 - *NEW: A “Super” Catch-up is now available for those aged 60-63 of \$11,250*
 - *Employer Portion: It can vary in forms and amounts - Matching, Qualified Matching, Profit-Sharing, Qualified Nonelective, Money Purchase*
- *Tax Benefits: Current deduction for contributions and tax-deferred growth. Taxed at time of distributions beginning after age 59 ½. Much like an IRA, there is a ROTH option available.*
 - *NEW: If your wages are greater than \$150,000, then any catch-up contributions must be directed to a ROTH account.*

Defined Benefit Plan

For those self-employed individuals (especially solo practitioners employing zero to very few) with higher incomes, the below options may be particularly appealing. These can be great tools for those that would like to store away an amount of money greater than that offered by Defined Contribution plans. Unlike the above which are considered Defined Contribution plans because the amount contributed is the known variable, the below options are considered Defined Benefit Plans. These can also be used as standalone plans or in conjunction with one of the above plans to really supercharge your retirement funding and the current tax benefits of doing so. Employees generally must be offered to participate in the plan, and the employer will need to make contributions on their behalf. Often, these plan types will require the services of a separate administration firm commonly referred to as a Third-Party Administrator (TPA).

a) Defined Benefit Pension Plan

These are referred to as pension plans because the “known” guaranteed amount is a monthly benefit starting at retirement. This is based on a formula involving compensation and length of service.

b) Cash Balance Plans

These plans are much the same as pension plans but rather than a “known” monthly benefit amount, the “known” guaranteed amount is a maximum lump sum payment amount at retirement.

- *Plan Type: Employer*
- *Setup: Very Involved*
- *Administration: Very Involved*
- *Costs to Setup & Maintain: Expensive Setup and Annual Expenses*
- *Annual Contribution Limit: Calculated by an actuary usually with minimum, maximum, & recommended values that can be quite large.*
- *Tax Benefits: Current deduction on Contributions for the “employer”. The maximum deduction must be calculated by an actuary.*

Conclusion

Having a retirement plan as a self-employed individual, whether solo or with employees, is important as part of your overall financial plan. By knowing all your options, you will be able to choose a plan that fits best with your situation to maximize the benefits available.

If you would like to learn more about how to navigate these choices, visit our “Request a Consultation” page to get in touch with an HB Wealth advisor: <https://hbwealth.com/request-a-consultation/>.

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