

Learn

Retirement Savings Plans for the Self-employed

Maybe you've owned your own small business for many years, or maybe you're just starting out. Either way, building a successful business takes a lot of hard work. Sometimes it's easy to forget that you won't always be working. One day you'll retire and turn your business over to a family member or sell it — or simply shut the doors.

But no matter what the future holds for your business, *your* future is going to require cash. And one of the best ways to prepare for your future is through a tax-favored retirement savings plan. If you're self-employed or the owner of a small company, you can take advantage of a plan designed specifically for your circumstances.

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The Solo 401(k) Plan

If it's just you and your business, an individual 401(k) allows you to set aside as much as \$49,000 in 2009 in a tax-favored retirement account. (The \$49,000 limit is inflation-adjusted after 2009.) If you're age 50 or older, you can make an additional catch-up contribution of \$5,500. With a solo 401(k) plan, you

aren't locked into contributing a set amount each year. When profits are down, for example, you don't have to make any contribution at all.

The SIMPLE Plan

With a savings incentive match plan (SIMPLE), you — and your eligible employees — can contribute up to \$11,500 of compensation in 2009. If you're age 50 or older, you can also make a catch-up contribution of \$2,500. You must have fewer than 100 employees who received \$5,000 or more in pay during the prior year to take advantage of a SIMPLE. A SIMPLE plan requires that you contribute in one of two ways: by matching employee contributions dollar for dollar, up to 3% of compensation; or by making a fixed contribution of 2% of compensation for each employee who's eligible to participate in the plan.

The SEP IRA

A simplified employee pension (SEP) plan may be ideal if your business has mostly lower paid employees and high employee turnover. Plan fees are low, and you can



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contribute 25% of compensation — 20% of net self-employment income — up to a maximum of \$49,000 annually. If you do have employees, you must make contributions to an IRA for each one at the same percentage of compensation as for yourself. However, you can vary the contribution amount from year to year and forgo making any contributions in years when profits drop.

The Keogh Plan

Keoghs may consist of a profit sharing plan, a money purchase plan, or both. Contributions to a money purchase plan must be made at the same percentage of income each year, regardless of profits. Contributions to a profit sharing plan may vary. Contributions are limited to 20% of net self-employment income or \$49,000, whichever is less.

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