

Entrepreneur's Guide to Retirement Accounts

Solo 401(k), SEP IRA, and Beyond

A comprehensive resource for small business owners and self-employed individuals

Introduction: Why Entrepreneurs Need Special Retirement Planning

As an entrepreneur or small business owner, you wear many hats—CEO, marketer, product developer, and more. In the midst of building your business, planning for retirement often takes a back seat. Yet, entrepreneurs face unique retirement challenges:

Variable Income

Inconsistent cash flow makes traditional retirement saving strategies difficult to implement consistently.

No Employer Safety Net

No corporate 401(k) matching or pension plans to rely on for retirement security.

Complex Tax Situations

Business structures create unique tax considerations that impact retirement planning decisions.

Business Value as Retirement Asset

Many entrepreneurs plan to sell their business as their primary retirement strategy—a risky approach.

The good news? The tax code offers several powerful retirement account options specifically designed for entrepreneurs and small business owners. These accounts provide tax advantages that can dramatically accelerate your path to financial independence—but only if you understand how to leverage them effectively.

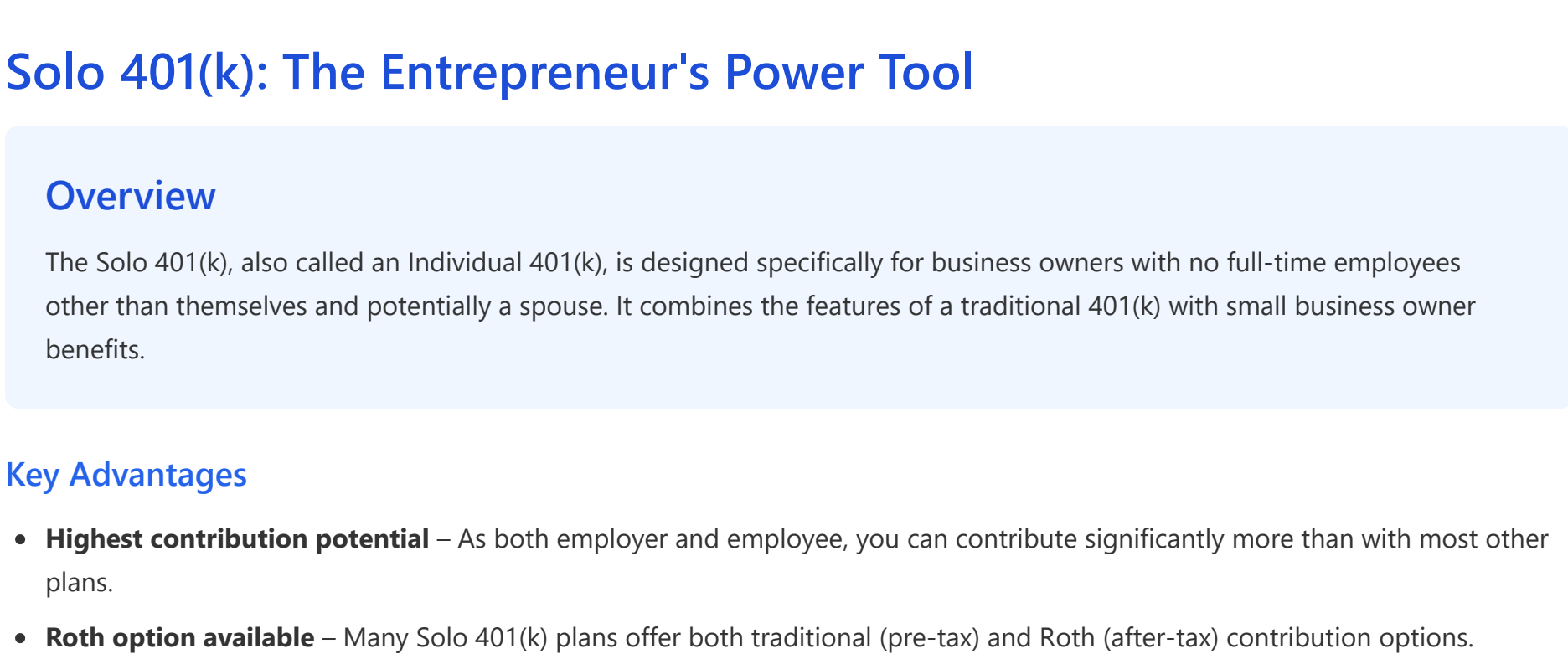
This guide will walk you through the major retirement account options available to entrepreneurs, helping you select and implement the right strategy for your unique situation.

Retirement Account Options at a Glance

Before diving into the details of each account type, let's compare the key features of the major retirement accounts available to entrepreneurs:

Account Type	2025 Contribution Limit	Employer Contribution	Ideal For	Setup Complexity
Solo 401(k)	\$23,000 employee + up to \$43,500 employer	Up to 25% of compensation	Self-employed with no employees	Moderate
SEP IRA	Up to \$69,000	Up to 25% of compensation	Self-employed or small business	Simple
SIMPLE IRA	\$16,000 + catch-up	Required (3% match or 2% non-elective)	Small businesses with employees	Simple
Traditional IRA	\$7,000 + catch-up	N/A	Everyone	Very Simple
Roth IRA	\$7,000 + catch-up	N/A	Income below limits	Very Simple
Defined Benefit Plan	Based on formula (up to \$265,000)	Employer funded	High-income, older entrepreneurs	Complex

2025 Maximum Contribution Comparison



Solo 401(k): The Entrepreneur's Power Tool

Overview

The Solo 401(k), also called an Individual 401(k), is designed specifically for business owners with no full-time employees other than themselves and potentially a spouse. It combines the features of a traditional 401(k) with small business owner benefits.

Key Advantages

- Highest contribution potential** – As both employer and employee, you can contribute significantly more than with most other plans.
- Roth option available** – Many Solo 401(k) plans offer both traditional (pre-tax) and Roth (after-tax) contribution options.
- Loan provisions** – Unlike IRAs, many Solo 401(k) plans allow you to borrow against your account (up to 50% or \$50,000, whichever is less).
- Catch-up contributions** – Additional \$7,500 in employee contributions permitted if you're 50 or older.
- Can be combined with IRAs** – Contributing to a Solo 401(k) doesn't limit your ability to also contribute to an IRA.

Contribution Structure

A Solo 401(k) allows two types of contributions:

Employee Contribution

Up to \$23,000 for 2025 (\$30,500 if age 50+) as elective deferrals, just like a traditional employer 401(k).

Employer Contribution

Up to 25% of compensation (limited to 20% for sole proprietors) up to a total contribution limit of \$69,000 for 2025.

Important Note on Compensation:

For Solo 401(k) purposes, your "compensation" is defined differently based on your business structure:

- Sole proprietor/single-member LLC:** Net earnings from self-employment (after deducting business expenses and half of self-employment tax).
- Corporation:** W-2 wages you pay yourself.

Ideal For:

- Solo entrepreneurs with significant income who want to maximize tax-advantaged retirement savings
- Business owners who want flexibility in contribution amounts from year to year
- Entrepreneurs who might need access to retirement funds before retirement (through loan provisions)

Limitations:

- Cannot have any full-time employees (other than a spouse)
- Requires more paperwork than an IRA, including Form 5500-EZ filing when assets exceed \$250,000
- Some providers charge higher fees than for IRAs

"The Solo 401(k) is usually the best choice for entrepreneurs without employees who are serious about building retirement wealth. The ability to contribute as both employer and employee creates unmatched savings potential."

SEP IRA: Simplicity Meets Generous Contribution Limits

Overview

A Simplified Employee Pension (SEP) IRA is a retirement account that allows business owners to contribute to their own retirement and their employees' retirement. It offers simplicity and high contribution limits with minimal paperwork.

Key Advantages

- Simple setup and maintenance** – Easier to establish than a Solo 401(k) with less ongoing paperwork.
- High contribution limits** – Up to 25% of compensation or \$69,000 (2025), whichever is less.
- Flexible annual contributions** – No requirement to contribute every year.
- Extended deadline** – Can be set up and funded until your tax filing deadline (including extensions).
- No plan administration fees** – Most providers offer SEP IRAs with no setup or maintenance fees.

Contribution Structure

SEP IRA contributions:

- Employer contributions only (no employee contributions)
- Up to 25% of compensation (limited to 20% for sole proprietors)
- Maximum of \$69,000 for 2025
- Must contribute the same percentage for all eligible employees

Important Employee Requirement:

If you have employees, you must include any employee who:

- Is at least 21 years old
- Has worked for you in at least 3 of the last 5 years
- Received at least \$750 in compensation for the year (2025)

This is a key consideration if you have employees, as you must contribute the same percentage of compensation for all eligible employees as you do for yourself.

Ideal For:

- Solo entrepreneurs who prefer simplicity over maximum contribution potential
- Business owners with few or no employees who want minimal administrative hassle
- Entrepreneurs with highly variable income who want contribution flexibility year to year
- Last-minute retirement planning (can be set up and funded up until tax filing deadline)

Limitations:

- No catch-up contributions for those 50 and older
- No Roth option available
- No loan provisions
- If you have employees, you must contribute equally (as a percentage) for all eligible employees
- Generally lower contribution potential than Solo 401(k) at the same income level

"For entrepreneurs who value simplicity above all else, the SEP IRA provides an excellent balance of generous contribution limits and minimal administrative burden. However, once you add employees, the equal contribution requirement can become costly."

SIMPLE IRA: For Small Businesses with Employees

Overview

The Savings Incentive Match Plan for Employees (SIMPLE) IRA is designed for small businesses with up to 100 employees. It's easier to administer than a traditional 401(k) but requires employer contributions.

Key Features

- Employee contribution limit** – \$16,000 for 2025 (\$19,000 if age 50+)
- Mandatory employer contribution** – Either match employee contributions up to 3% of compensation OR contribute 2% of compensation for all eligible employees
- Lower administrative burden** than traditional 401(k) plans
- Immediate vesting** – Employees own all contributions immediately

Ideal For:

- Small businesses with employees who want to offer a retirement plan without the complexity of a 401(k)
- Businesses with fewer than 100 employees
- Companies that can commit to making mandatory employer contributions

Limitations:

- Lower contribution limits than SEP IRA or Solo 401(k)
- Mandatory employer contributions
- No Roth option
- No loan provisions
- Early withdrawal penalties are higher than other plans (25% within first 2 years)

Important Consideration:

Once you establish a SIMPLE IRA plan, you generally can't establish any other retirement plan for that year. This means you can't contribute to both a SIMPLE IRA and a Solo 401(k) or SEP IRA in the same tax year.

Traditional and Roth IRAs: The Foundation

While not specific to entrepreneurs, Individual Retirement Accounts (IRAs) should form the foundation of most retirement strategies, often used alongside business-specific retirement accounts.

Traditional IRA

- Contributions may be tax-deductible
- Tax-deferred growth
- Taxed upon withdrawal
- Required Minimum Distributions (RMDs) at age 73
- 2025 contribution limit: \$7,000 (\$8,000 if age 50+)

Roth IRA

- Contributions are not tax-deductible
- Tax-free growth and withdrawals
- No RMDs during account owner's lifetime
- Income limits apply for contributions
- 2025 contribution limit: \$7,000 (\$8,000 if age 50+)

Note on Eligibility:

Having a business retirement plan like a Solo 401(k) or SEP IRA doesn't prevent you from also contributing to a Traditional or Roth IRA. However, your ability to deduct Traditional IRA contributions may be limited if you or your spouse are covered by a workplace retirement plan.

For many entrepreneurs, a Roth IRA offers unique advantages:

- Tax diversification alongside pre-tax business retirement accounts
- No RMDs, allowing continued tax-free growth throughout retirement
- Ability to withdraw contributions (but not earnings) at any time without penalty
- Excellent estate planning tool, as heirs receive tax-free distributions

Defined Benefit Plans: Maximum Tax-Deferred Savings

Overview

A Defined Benefit Plan is a qualified retirement plan that provides a specific benefit amount at retirement. For high-income entrepreneurs, especially those approaching retirement age, these plans allow for the largest possible tax-deductible retirement contributions.

Key Advantages

- Highest contribution limits** – Potentially over \$300,000 annually, depending on age and income
- Substantial tax deductions** – Contributions are tax-deductible business expenses
- Accelerated retirement saving** – Ideal for those who started saving late
- Can be combined with other plans** – Often paired with a 401(k) for maximum savings

Limitations:

- Complex and expensive to set up and administer
- Requires actuarial calculations and annual filing requirements
- Mandatory annual funding requirements
- Less flexibility than defined contribution plans
- If you have employees, you must generally include them, which can be costly

"Defined Benefit Plans are the secret weapon for entrepreneurs over 50 with high, stable incomes who want to catch up on retirement savings while maximizing tax deductions. However, their complexity and ongoing costs make them suitable only in specific circumstances."

Choosing the Right Account(s) for Your Situation

The ideal retirement account strategy depends on several factors unique to your business and personal situation:

Business Structure

Sole proprietor, LLC, S-Corp, or C-Corp status affects compensation calculations and plan options.

Employees

Having employees dramatically changes the cost-benefit analysis of different retirement plans.

Income Level & Stability

Your income amount and consistency influence contribution capacity and the optimal plan structure.

Age & Retirement Timeline

Your age and years until retirement affect which accounts and contribution strategies make the most sense.

Decision Framework

Your Situation	Recommended Primary Plan	Supplementary Plans
Self-employed, no employees, maximizing contributions	Solo 401(k)	Roth IRA
Self-employed, no employees, simplicity preferred	SEP IRA	Roth IRA
Small business with employees, moderate budget	SIMPLE IRA	Traditional/Roth IRA for owner
High-income, age 50+, no/few employees	Defined Benefit Plan	Solo 401(k)
Variable income, need contribution flexibility	SEP IRA	Roth IRA
Starting out, lower income	Roth IRA	Traditional IRA

Strategic Approach: Account Stacking

Many successful entrepreneurs use multiple retirement accounts simultaneously to maximize tax advantages and flexibility. A common strategy includes:

- Roth IRA** – Fund this first for tax-free growth (if eligible)
- Solo 401(k) or SEP IRA** – Primary business retirement vehicle
- Health Savings Account (HSA)** – Triple tax advantage when used for healthcare
- Taxable brokerage account** – For additional investments after maximizing tax-advantaged accounts

This layered approach provides tax diversification, access options, and maximum growth potential.

Implementation: Setting Up Your Chosen Account(s)

Once you've selected the appropriate retirement account(s), implementation is straightforward:

Solo 401(k) Setup Process

- Choose a Provider**
Select a financial institution that offers Solo 401(k) plans. Major options include Fidelity, Vanguard, Charles Schwab, and E*TRADE. Compare fees, investment options, and additional features (Roth options, loan provisions).
- Complete Plan Documents**
Fill out the adoption agreement and other required paperwork. You'll need your business EIN and personal information.
- Set Up the Account**
Once paperwork is processed, fund your account and select investments based on your risk tolerance and retirement timeline.
- Understand Filing Requirements**
Solo 401(k) plans with assets exceeding \$250,000 must file Form 5500-EZ annually with the IRS.

SEP IRA Setup Process

- Choose a Provider**
Select a financial institution for your SEP IRA. Nearly all major brokerages offer them with no setup fees.
- Complete IRS Form 5305-SEP**
This simple form establishes your SEP IRA plan. Your provider will typically include this in their account opening process.
- Notify Eligible Employees**
If you have employees, provide them with information about the SEP IRA and assist them in setting up their accounts.
- Fund the Account**
Contribute to your SEP IRA (and your employees' accounts if applicable) by your tax filing deadline, including extensions.

Important Deadlines:

- Solo 401(k) establishment deadline:** December 31 of the tax year (but contributions can be made until tax filing deadline)
- SEP IRA establishment and funding deadline:** Tax filing deadline including extensions
- Traditional/Roth IRA contribution deadline:** Tax filing deadline (typically April 15) without extensions

Tax Planning Considerations

Strategic tax planning can significantly enhance the value of your retirement accounts:

Business Structure Optimization

Your business structure affects retirement plan options and contribution calculations. For example:

- S-Corporation owners can potentially increase retirement contributions by paying themselves a reasonable salary.
- Sole proprietors calculate contributions based on net self-employment income.

Tax Diversification

Maintain a mix of pre-tax, Roth, and taxable accounts for maximum flexibility in retirement:

- Pre-tax accounts (Traditional) reduce current taxes
- Roth accounts provide tax-free withdrawals
- Taxable accounts offer flexibility and potentially favorable capital gains treatment

Advanced Strategy: Mega Backdoor Roth

Some Solo 401(k) plans allow for "after-tax" contributions beyond the standard employee and employer contributions, which can then be converted to Roth status. This strategy, known as the "Mega Backdoor Roth," can potentially allow for additional Roth contributions of up to \$43,500 annually (2025).

Not all plan providers support this feature, so specific plan selection is crucial if this strategy interests you.

Common Mistakes to Avoid

Missing Deadlines

Solo 401(k) plans must be established by December 31, while SEP IRAs can be set up until your tax filing deadline. Missing these deadlines can cost you a year of tax-advantaged saving.

Miscalculating Contributions

Calculating your maximum allowable contribution incorrectly can result in excess contributions and potential penalties. Consider consulting with a tax professional.

Ignoring Spousal Options

If your spouse works in your business, they may be eligible for their own retirement plan contributions, potentially doubling your household's tax-advantaged savings.

Neglecting Investment Strategy

Simply opening a retirement account isn't enough—your investment choices within the account will significantly impact your long-term results. Consider low-cost index funds for broad diversification.

Case Studies: Retirement Strategies in Action

Case 1: Solo Consultant Maximizing Contributions

Profile: Sarah, 45, solo marketing consultant with \$200,000 annual net income, no employees
Goal: Maximize tax-advantaged retirement savings
Strategy:

- Solo 401(k): \$23,000 employee contribution + \$37,000 employer contribution
- Backdoor Roth IRA: \$7,000 annual contribution
- HSA: \$3,850 annual contribution (used as additional retirement savings)

Result: \$70,850 total annual tax-advantaged savings, reducing current tax burden while building substantial retirement assets

Case 2: Small Business Owner with Employees

Profile: Michael, 52, retail store owner with 5 employees, \$150,000 personal income from business
Goal: Create retirement plan that balances personal savings with reasonable employee costs
Strategy:

- SIMPLE IRA: \$19,000 personal contribution (including catch-up)
- 3% employer match for all eligible employees
- Backdoor Roth IRA: \$8,000 annual contribution (including catch-up)

Result: \$27,000 personal retirement savings with manageable employee plan costs (approximately \$6,000 annually for employee matches)

Case 3: High-Income Professional Nearing Retirement

Profile: Robert, 58, medical practice owner (S-Corp) earning \$500,000 annually, with 1 part-time administrative assistant
Goal: Aggressively catch up on retirement savings while maximizing tax deductions
Strategy:

- Defined Benefit Plan: \$245,000 annual contribution
- Solo 401(k): \$30,500 (including catch-up)
- Backdoor Roth IRA: \$8,000 (including catch-up)

Result: \$283,500 annual retirement savings, substantial reduction in current tax liability, accelerated path to retirement security

Conclusion: Building Your Entrepreneurial Retirement Strategy

As an entrepreneur or small business owner, you have access to powerful retirement savings tools that can help you build wealth more efficiently than many traditional employees. By understanding and leveraging the right combination of retirement accounts for your unique situation, you can:

- Significantly reduce your current tax burden
- Build substantial tax-advantaged retirement savings
- Create flexibility for accessing funds at different life stages
- Establish financial security independent of your business's future value

Next Steps

- Assess your current financial situation and retirement goals
- Consult with a tax professional or financial advisor familiar with small business retirement plans
- Select the most appropriate retirement account(s) for your situation
- Establish your chosen account(s) by the applicable deadlines
- Develop a consistent contribution strategy aligned with your business cash flow
- Review and adjust your plan annually as your business and personal circumstances evolve

Remember that the best retirement strategy is one that you actually implement. Even starting small with consistent contributions to a simple plan will yield significant benefits over time through the power of compound growth.