

# Individual 401(k) Plans

Offer many of the advantages of a traditional 401(k) plan without all the administrative responsibilities.

## KEY BENEFITS

- Establishes a tax-deferred retirement account for you as the business owner—and your spouse if employed by the business
- Avoids complex and costly administration
- Allows a tax credit for new start-up cost of up to \$5,000 for each of the first three years after establishing a new plan
- Provides high retirement contribution limits to the plan
- Allows you to maintain this plan at the same time as other qualified plans
- Accommodates funding flexibility for changing business conditions
- Features immediate vesting of all contributions and the ability to take loans



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An Individual 401(k) can help you plan for retirement by offering the benefits of tax-deferred growth, federal income tax deductions on plan contributions and flexible funding during changing business conditions.

## HOW INDIVIDUAL 401(k)s WORK

Individual 401(k) plans work much the same as traditional 401(k) plans offered by large companies and like SEP IRAs designed for the self-employed. What makes the Individual 401(k) unique to other self-employed retirement plans:

- > Allows for greater contributions to be made, as the business owner may make contributions as both the employee and employer
- > Flexibility to borrow tax-free against the plan value, up to 50% with a maximum of \$50,000

Individual 401(k) salary deferral contributions can be made one of two ways:

- 1) Traditional 401(k)(pre-tax)—contributions are made on a pre-tax basis and grow tax-deferred, while assets are taxed at withdrawal; or
- 2) Roth 401(k)(after-tax)—contributions are made with after-tax dollars, allowing plan assets to grow tax-free and are not federally taxed upon qualified withdrawal.

## INDIVIDUAL 401(k) ELIGIBILITY

An Individual 401(k) is designed for self-employed individuals or business owners with no employees other than a spouse. Sole proprietorships, partnerships and corporations (including both subchapter S and C corporations) qualify.

## CONTRIBUTIONS

\$23,000

for 2024  
Employee Limit

Note: Limits do not include catch-ups.

\$69,000

for 2024  
Employee + Employer Limit

Note: Limits do not include catch-ups.

Contributions are discretionary, so you can contribute the maximum in successful years and less (or nothing) in leaner years. If you are 50 or older and eligible for catch-up contributions of \$7,500 for 2024 and 2023, the total contribution amount (including catch-ups) increases to \$76,500 for 2024 and \$73,500 for 2023.

## HOW A FINANCIAL PROFESSIONAL CAN HELP

### Create a retirement strategy

Your financial professional can help you map out a holistic retirement planning strategy, taking into consideration your retirement goals, timeframe and risk tolerance and select a retirement plan that is right for you and your business.

### Provide documentation

Gain access to the documentation and forms needed to set up an Individual 401(k) plan.

### Determine investment options and track performance

Your financial professional can assist you in determining how to allocate and invest account assets, review performance and re-evaluate your asset allocation and investment strategies on a regular basis.

### Facilitate plan loans

Coordinate loans from the plan of up to 50% of the account balance (up to \$50,000 if selected in the plan adoption agreement).

## DISTRIBUTIONS

Withdrawals are permitted without penalty at age 59½, in the event of death or disability of the participant or another exception applies (see table below).

Individual 401(k) Plans	2024
Eligible Participants	<ul style="list-style-type: none"><li>– Business owners and their spouses working in the business</li><li>– Business types include sole proprietorships, partnerships and corporations</li></ul>
Contributions Allowed	<ul style="list-style-type: none"><li>– Employer contributions and employee deferrals</li><li>– Profit-sharing contributions are optional</li></ul>
Maximum Employee Contribution	\$23,000 for 2024 (\$22,500 for 2023); additional yearly catch-up contribution for individuals age 50 and over of up to \$7,500 for 2024 and 2023
Maximum Employer Contribution	25% of eligible compensation, up to \$69,000 for 2024 and \$66,000 for 2023 excluding catch-up <sup>1</sup>
Timing of Contributions	<ul style="list-style-type: none"><li>– Employer—contributions must be made by federal tax filing date (with extensions) for prior year contribution</li><li>– Employee—deferral from payroll by December 31 (Traditional or Roth)</li></ul>
Minimum Age to Take Distributions Without Penalty	59½—early withdrawals are subject to 10% additional tax, except for those 55 or older who are separated from service or another exception applies, such as disability, first time home purchase (up to \$10,000), education, IRS levy or upon adoption or birth of a child (up to \$5,000)
Mandatory Age Distributions Must Begin	Must begin by April 1 of the year after participant reaches age 73
Plan Loans	Yes (option must be selected in the plan adoption agreement)

<sup>1</sup> The Internal Revenue Service caps compensation at \$345,000 for 2024 and \$330,000 for 2023, regardless of actual income or earnings.

This chart is intended to provide general information and is not intended as tax or legal advice. The rules governing contribution limits are complex, and you should consult with your plan administrator to understand the limitations, rules and regulations that apply to your plan. State taxes may also apply to distributions.

## TALK TO A FINANCIAL PROFESSIONAL TO FIND OUT MORE

Your financial professional can help you review your individual and your business' specific situation and goals, along with the features and benefits, as well as any risks of implementing an Individual 401(k) plan. Carefully review the plan, its investment options and costs before investing.

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