

# Owner-only 401(k) profit sharing plans



Wealth  
Management

## Improved 401(k) options for small business owners

A SEP IRA only allows for an employer non-elective contribution, which is what a traditional profit sharing plan offers. An owner-only 401(k) profit sharing plan offers the additional benefit of a salary deferral feature that allows the business owner to contribute in 2022 an additional \$20,500, or \$27,000 for an owner over age 50. In comparison, SIMPLE IRAs, with their far more modest contribution limits, don't come close to offering the savings opportunities available through an owner-only 401(k) profit sharing plan.

In addition, unlike SEP IRAs or SIMPLE IRAs, an owner-only 401(k) profit sharing plan also allows the business owner to take advantage of a Designated Roth 401(k) Account feature, along with a loan feature if they so desire.

## Eligibility

The owner-only 401(k) profit sharing plan is available to any business that employs only owners and their spouses, including C corporations, S corporations, partnerships and sole proprietorships.

## Higher contribution limits

- **Employer contributions–**  
You can contribute up to 25%

of your annual income into a 401(k) profit sharing plan, based on a maximum compensation amount of \$305,000 (2022 limit).

- **Salary deferral contributions–**  
You can defer up to \$20,500 of income into your 401(k) plan in 2022 and thereafter it is indexed for inflation.
- **“Catch-up” contributions–**  
If you are age 50 or older, you can contribute an extra \$6,500 into your 401(k) plan in 2022. This “catch-up” amount is indexed for inflation.

The sum of your employer contribution and your salary deferral contributions cannot exceed \$61,000 in 2022 (\$67,500 in 2022 for individuals over age 50).

## Other key benefits

Apart from providing higher contribution limits, your owner-only 401(k) profit sharing plan offers you some other key benefits:

- **Contribution flexibility–**  
You decide each year how little or how much you want to contribute to your plan.
- **Lower costs than traditional 401(k)s–**  
Your plan will likely incur considerably lower fees than a traditional 401(k) plan.

- **Less administrative duties–**  
Unlike a traditional 401(k) plan, an owner-only profit sharing plan contains no complicated discrimination tests or detailed administrative requirements. When the plan assets are \$250,000 or greater, you are required to file IRS Form 5500-EZ annually, regardless of fluctuations in the balance of the plan.
- **Wide range of investment options–**  
You can fund your 401(k) plan with any investment you choose: stocks, bonds, mutual funds, CDs and government securities.
- **Loan option available–**  
You can take out tax-free and penalty-free loans from your 401(k) plan, which you can repay at a competitive interest rate.
- **Rollovers permitted–**  
Your 401(k) plan generally can accept rollovers from other retirement plans.

## Call your financial advisor

Your financial advisor can help you evaluate your needs to determine which retirement plan may be most appropriate. If an owner-only 401(k) profit sharing plan is right for you, then your financial advisor can help you establish the plan and offer recommendations on investment options.

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