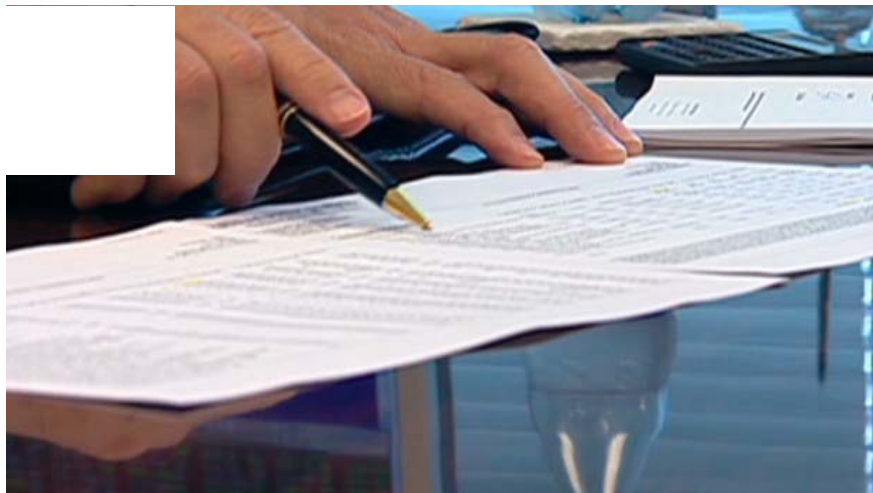




ASK THE EXPERT

## Should a sole proprietor open a 401(k)?

By Stephanie AuWerter @Money August 20, 2013: 4:31 PM ET

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### How 401(k) fees eat away at your savings

452

TOTAL SHARES

116

146

150

40

NEW YORK (Money Magazine)

*I'm a sole proprietor. Should I convert my SEP-IRA to a solo 401(k)? -- Jeff, Mendota Heights, Minn.*

That depends mostly on how much you make and how much you want to save.

Is your self-employment income less than roughly a quarter million? You can probably put more into the solo 401(k) -- a retirement plan for a one-person business -- says Adam Bergman, a tax attorney at IRA Financial Group in New York City.

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Your contributions to a **simplified employee pension IRA**, also used at small firms, are capped at 20% of income after a reduction for self-employment taxes; with a solo 401(k), you can sock away up to \$17,500 more. Either way, your 2013 limit is \$51,000 or, if you're 50 or older, \$56,500 in a solo 401(k).

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Higher limits aren't the only perk of a solo 401(k): You can also use it to make Roth 401(k) deferrals of after-tax money that you can withdraw tax-free in retirement. ■

Send a letter to the editor about this story to [money\\_letters@money.com](mailto:money_letters@money.com).

#### Maxing out a retirement account

A sole proprietor can save more for retirement in a solo 401(k) than in a SEP-IRA -- up to a point.

Net income

Annual contribution limit: SEP-IRA

Annual contribution limit: Solo 401(k)

Net income	Annual contribution limit: SEP-IRA	Annual contribution limit: Solo 401(k)
\$125,000	\$23,300	\$40,800
\$250,000	\$47,900	\$51,000

Note: Limits are 2013 figures for sole proprietor under the age of 50.  
Source: Fidelity

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