



Individual 401(k) Plans

offer many of the advantages of full-featured 401(k) plans without 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 your business of up to \$500 per year for each of the first three years after establishing a 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

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) 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; or
- 2) Traditional 401(k) (pre-tax)—contributions are made on a pre-tax basis and grow tax-deferred, while assets are taxed at 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



\$18,000
employee limit



\$53,000 for 2016

\$54,000 for 2017
employee + employer limit*

*Does 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 both 50 or older and eligible for catch-up contributions of \$6,000 each for 2016 and 2017, the total contribution amount increases to \$118,000 for 2016 and \$120,000 for 2017.

How an Advisor Can Help

Create a retirement strategy

Your advisor 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 advisor 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 or in the event of death or disability. Early withdrawals are generally subject to a 10% federal tax penalty if taken before age 59½. There may also be state tax implications. Minimum required distributions must begin by April 1 of the year following the year in which you reach 70½.

Individual 401(k) Plans	2016 and 2017
Eligible Participants	Business owners and their spouses working in the business. Business types include sole proprietorships, partnerships and corporations
Contributions Allowed	Employer contributions and employee deferrals. Profit-sharing contributions are optional
Maximum Employee Contribution	\$18,000 for 2016 and 2017; additional yearly catch-up contribution for individuals age 50 and over of up to \$6,000
Maximum Employer Contribution	25% of eligible compensation, up to \$53,000 for 2016 and \$54,000 for 2017, excluding catch up ¹
Timing of Contributions	- Employer—contributions must be made by federal tax filing date (with extensions) for prior year contribution - Employee—deferral from payroll by December 31 (Traditional or Roth)
Minimum Age to Take Distributions Without Penalty	59½ (excluding death or disability)
Mandatory Age Distributions Must Begin	Must begin by April 1 of the year after participant reaches 70½
Plan Loans	Yes (option must be selected in the plan adoption agreement)

Based on Internal Revenue Service Data, October 31, 2016. 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.

Talk to an advisor to find out more

Your advisor 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.

¹ The Internal Revenue Service caps compensation at \$265,000 for 2016 and \$270,000 for 2017, regardless of actual income or earnings.

Note: Investing involves risks, including the possible loss of principal. Investments are not FDIC insured and not insured by any federal government agency and may lose value. Different investments carry different types and degrees of risk and may not be suitable for all investors. You should familiarize yourself with those risks before investing. This summary is for general information purposes only.

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