Retirement for Freelancers

An overview of retirement options

Self-employed taxpayers often do not have an employer providing retirement benefits. This is why it's important to understand how to prepare for the future yourself.

There are several retirement plans available to the self-employed including the following:

- Traditional IRA
- Roth IRA
- SEP IRA
- Self-employed (or “solo”) 401(k)

You can open retirement plans with financial planners as well as with select online providers.

A Comparison of tax treatment

Roth IRA

- Whatever is put into a Roth right now will have zero impact on your taxes (there's NO deduction on your current taxes)
- However, when you take the money out of your Roth at retirement age, that money is tax free. So you pay zero taxes on it during retirement.
- In a nutshell, the Roth gives you a tax benefit when you're retired (paying no taxes on the withdrawals).

Traditional and/or SEP IRA

- Whatever is put into a Traditional (or SEP) IRA right now will help you save on your taxes (there IS a deduction on your current taxes)
- However, when you take the money out of your Traditional (or SEP) IRA at retirement age, that money is NOT tax free. So you will pay taxes on it during retirement.
- In a nutshell, the Traditional (or SEP) IRA gives you a tax benefit on your current taxes (getting a tax deduction).

Solo 401(k)

- The main reason an individual would consider a solo 401(k) is if you would like to be more aggressive in your annual contributions.
- The downside to these plans is that they are more complex to set up, sometimes have more fees associated, and may require additional IRS filing requirements should your account balance exceed $250,000.
- Contribution limits in a one-participant 401(k) plan
    - The business owner wears two hats in a 401(k) plan: employee and employer. Contributions can be made to the plan in both capacities. The owner can contribute both:
        - Elective deferrals up to 100% of compensation ("earned income" in the case of a self-employed individual) up to the annual contribution limit:
            - $23,000 in 2024; plus
        - Employer nonelective contributions up to:
            - Up to 25% of "earned" freelance income (Earned Income = Net Profit – 1/2 of Self-Employment Tax – Contribution)
    - The total of both types of contributions cannot exceed $69,000 in 2024

See the table below for a comparison of how your contributions and withdrawals are taxed, as well as contribution limits.

Retirement account	**Non-deductible contribution & tax-free withdrawal**	**Deductible contribution & pay taxes on the withdrawal**	**Contribution limits**
Roth IRA	✔		$7,000/year (in 2024) total for both IRAs combined
Traditional IRA		✔	
SEP IRA		✔	25% of your earned business income or $69,000 (in 2024) (whichever is lesser)
Solo 401(k)		✔	Up to $19,500 or your earned business income (whichever is lesser) plus 25% of your earned business income