Plan Sponsor FAQs
Pub. 11 Rev. 7.16.18

Solo 401(k) Plan FAQs

What is a solo 401(k) plan?

Although this is a term commonly used in the industry, a "solo 401(k) plan" is simply a regular 401(k) plan that only provides benefits for the sole owner of a business (or the owner and his or her spouse), or the partners of a partnership (or partners and their spouses). Under the regulations, these types of plans are referred to as "one-participant" plans.

What are the key benefits of solo 401(k) plans?

- Offer higher contribution limits than SEPs and SIMPLE IRAs
- Exempt from many of the requirements applicable to 401(k) plans that also cover employees
- Subject to limited annual Form 5500 reporting requirements
- Offer greater flexibility in overall plan design than SEPs and SIMPLE IRAs
- Can allow for participant loans (not available in SEPs or SIMPLE IRAs)

What are the contributions limits?

There are several contribution limits that come into play here.

- The overall deduction limit is 25% of eligible compensation; however, **<u>401(k) contributions are not taken into consideration for this purpose</u>.**
- The 401(k) deferral limit is $18,500; individuals who will be at least 50 years old by the end of the year may contribute an additional $6,000 as a catch-up contribution (2018 limit).
- The overall individual contribution limit is the lesser of 100% of compensation or $55,000; individuals who will be at least 50 years old by the end of the year may contribute an additional $6,000 as a catch-up contribution (2018 limit).

The following example illustrates the dramatic impact this can on plan contributions.

Participant	Comp	401(k)	Profit Share	Total	SEP IRA
Owner	$150,000	$24,500	$36,500	$61,000	$37,500
Spouse	$50,000	$24,500	$13,500	$38,000	$12,500
Totals	**$200,000**	**$49,000**	**$50,000**	**$99,000**	**$50,000**

Assuming the owner and his spouse are at least 50, they can contribute an additional $49,000 per year!

Can a business that has employees have a solo 401(k) plan?

The key issue here is whether those employees would be required to be covered under the plan. In general, if the business has any employees who have completed a year of service (working at least 1,000 hours) and are at least 21 years old, then the plan would not be considered a "solo 401(k) plan". In other words, the employee(s) would have to be covered under the plan, the plan would not meet the requirements to be exempt from certain rules, and the limited Form 5500 reporting requirements would not apply.

Which rules don't apply to solo 401(k) plans?

- The fidelity bond requirements
- The requirement to provide certain participant disclosures, such as the Summary Plan Description, Summary Annual Report, investment and fee disclosure information, etc.
- Plan discrimination testing

What are the annual Form 5500 reporting requirements?

- Form 5500 is not required to be filed if plan assets were $250,000 or less as of the last day of the plan year, unless it is the final plan year.

  Note, however, we recommend that once a plan meets the filing threshold, they continue to file the Form 5500 for all future years (even if assets later drop below the filing threshold) since the IRS will likely issue notices looking for "late" returns.

- Form 5500-EZ may be filed, which is essentially a "short" version of the Form 5500-SF.

How do I establish a solo 401(k) plan?

- Execute a 401(k) plan document
- Establish a trust account (or accounts) in the name of the plan

Is there a downside to establishing a solo 401(k) rather than a SEP IRA?

The downside is that there are some additional expenses associated with this type of plan (ex. the fee for the 401(k) plan document and annual administration expenses). The benefit of higher contribution levels, however, often far outweighs the minimal expenses associated with establishing and maintaining the plan.

How can I learn more?

If you are interested in learning more about solo 401(k) plans, please contact us. We will be happy to you determine if this is the right plan design for you!

Coastal Retirement Consultants, LLC | PO Box 352, Port Saint Joe, FL 32457 | P: 850.387.1319 | F: 850.387.1320
www.coastalretirementllc.com