



## The Individual 401(k) Plan

If you are a sole proprietor or solo business owner looking to build your retirement, you may not realize that there is a 401(k) program designed just for individuals like you. You may work full-time for your own corporation, or perhaps you are a consultant or independent contractor earning self-employment income. In these and similar work situations, you oversee your own retirement planning. The Individual 401(k) Plan may be the way for you to gain the benefits enjoyed by millions of employees, but designed specifically to fit the needs of an individual entrepreneur without employees.



When you adopt an Individual 401(k) Plan, you will have a plan that is as simple as you want, with investment choices that are as sophisticated as you need.

### Who You Are: Corporations, LLCs, Partnerships, Sole Proprietors and Nonprofit Entities

- Sole Practitioner Professional: doctor, dentist, attorney, CPA, architect, nurse-practitioner
- Real estate broker
- Interior designer
- Manufacturer's representative
- Consultant: computer or software consultant, marketing or management consultant
- Small retail owner
- Freelance writer
- Building trades: electrician, plumber
- Retiree starting a new business
- Other professionals and entrepreneurs who work by themselves

### Individual 401(k) Plan Benefits

- The potential to make larger contributions than other retirement plans
- Total contributions for you in 2023 can be as high as \$66,000, or as high as \$73,500 if you are age 50 or over. These amounts equal or exceed potential contribution levels to other defined contribution plans
- The flexibility to roll over virtually any type of retirement plan into one account, including a corporate 401(k) Plan or a Traditional IRA, which may ease administration, widen investment choices and opportunities, and may reduce costs
- A loan feature that allows you to borrow one-half of your account balance, up to \$50,000

### How Individual 401(k) Plans Work

- Profit-sharing 401(k) contributions are fully deductible on your corporate income tax return, or for self-employed individuals, on your personal income tax return
- All interest, dividends and potential earnings grow tax-deferred
- A wide range of investment options may be held in your Morgan Stanley Individual 401(k) Plan brokerage account appropriate to your individual risk tolerance and investment preference. Popular choices include stocks, bonds, mutual funds, unit investment trusts and certificates of deposit. But there are other investment choices available that you can discuss with your Morgan Stanley Financial Advisor or Private Wealth Advisor
- Make two types of discretionary contributions:
  - **Profit sharing:** You decide each year what percentage of your salary up to 25% or net profit you wish to add to your Individual 401(k) Plan in the form of a profit-sharing contribution.
  - **Salary deferral:** For 2023, you may defer an additional \$22,500. And if you are age 50 or over, another \$7,500 catch-up contribution, for a total deferral of \$30,000. The ability to make catch-up contributions can increase the overall annual limit noted above to \$73,500
- Depending on the terms of your plan, you may be able to decide which of two ways to contribute salary deferral amounts:
  - **Before-tax deferrals:** reduce your current income and therefore reduce your current personal income tax liability. Distributions will be taxable when withdrawn
  - **After-tax deferrals (also known as Roth 401(k) contributions):** do not reduce your current income, but withdrawals of principal and accumulated earnings may be tax-free
- Plan administration: You may consider retaining a professional 401(k) Plan Administrator to handle the additional oversight that is mandated by government regulation whenever employees are covered by a qualified retirement plan. Administrators can also take on many administrative and reporting obligations on your behalf
- Individual 401(k) Plan Setup Deadline: Establish your plan by your tax-filing deadline, including extensions. Salary deferrals, however, may only be made for amounts earned after the date you adopt the plan, so it is to your advantage to establish your Individual 401(k) Plan as early in the year as possible.

## Let Morgan Stanley Work With You

No matter what type of retirement solution you choose, it's important to talk to a professional as well as consult with legal and tax advisors to discuss which plan makes the most sense for your business, now and as your business grows. When you are ready to take the next step, a Morgan Stanley Financial Advisor is here to help simplify the process of putting a retirement plan to work for your business and employees, from selecting and implementing a plan, to guiding through administrative concerns and ongoing plan administration.



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