Funding Retirement as a Self-Employed Agent
and **Supercharge Your Benefits**

Types of Savings Accounts for Retirement

- Traditional IRA
- Roth IRA
- 401(k)
- SIMPLE IRA
- SEP IRA

Deferrals and Tax Treatment (Rules, Limits, etc.)

1.) Traditional IRAs

- Must have ***earned income*** to contribute

- The contributed funds grow on a ***tax-deferred*** basis – taxes are paid on the gains only ***when funds are withdrawn***
    - Earnings are taxed at your ***ordinary income tax rate*** when withdrawn in retirement

- IRA Deduction Limits (2024)
    - With this Pre-Tax account, you can reduce your taxable income by the amount that's contributed into the IRA
    - However, eligibility is determined by ***income***, ***filing status***, and participation in an ***employer-sponsored retirement plan***:
        - View the phase-out deduction ranges (*https://www.irs.gov/newsroom/401k-limit-increases-to-23000-for-2024-ira-limit-rises-to-7000*)

- Contribution Limits (2024)
    - $7,000 for those under age 50
    - $8,000 for those age 50+
        - *An extra $1,000 is available as a catch-up contribution to those 50+*

- Required Minimum Distributions (RMDs)
    - RMDs are the minimum amounts you *must* withdraw from your retirement

accounts each year
- Distributions *must* be taken when you reach age **72 *(or 73 if you reach age 72 after 12/31/2022)***
- The required distribution amount depends on your age and account value

- Early Withdrawal Penalties
  - Non-Qualified withdrawals from a traditional IRA are subject to income tax in addition to a 10% penalty prior to the age of 59½ years old

2.) Roth IRAs

- Roth IRAs are tax-advantaged retirement accounts where you contribute ***after-tax dollars***
  - *Must have **earned-income** to contribute*

- The contributions and the earnings on those contributions can be withdrawn tax-free after the **age 59½**
  - *If the account has been open for at least **5 years***

- These differ from Traditional IRAs in the way that contributions are ***not tax-deductible***. However, the money is ***tax-free*** when taken out after age 59½

- NO ***Required Minimum Distributions (RMDs)*** required

- Contribution Limits (2024)
  - $7,000 for those under age 50
  - $8,000 for those age 50+
    - *An extra $1,000 is available as a catch-up contribution to those 50+*

3.) 401(k)

- Contribution Limits (2024)
  - $23,000 for employee contributions
    - *An extra $7,500 is available as a catch-up contribution to those age 50 and older* – Raising employee contribution limit to **$30,500**
  - $69,000 for ***combined*** employee & employer contributions ($76,500 for 50 and older)

- Income Tax Deductions
  - Contributions to a Traditional 401(k) are made with pre-tax dollars, meaning they are deducted from your taxable income for the year
    - Withdrawals in retirement are then taxed as ordinary income
  - **Roth 401(k)** contributions are made with after-tax dollars, so withdrawals in retirement are generally tax-free

- Withdrawal Restrictions
  - Withdrawing funds **before age 59½** may result in taxes, penalties, and potential loss of employer contributions
    - 10% penalty + income tax on amount withdrawn

- **Required Minimum Distributions** are required once you reach age 73.
  - *https://www.irs.gov/retirement-plans/retirement-plan-and-ira-required-minimum-distributions-faqs*
  - *Remember, this only applies to Traditional 401(k) plans*

4.) SIMPLE IRA

- A SIMPLE IRA is a retirement savings plan available to small businesses and self-employed individuals
  - Available to any small business (***100 or fewer employees***)
  - Employer cannot have any other retirement plan

Contribution Limits (2024)

  - $16,000 for employee contributions
    - Additional catch-up contributions for those over age 50 can contribute another $3,500 for the year into the SIMPLE IRA

- Employer Contributions:
  - Employers are required to contribute each year:
    - Matching contribution up to 3% of employee's compensation; ***or***
    - 2% nonelective contributions for eligible employees (up to the annual limit of $345,000 in 2024)

- Income Tax Deductions
  - Contributions are pre-tax dollars – amount contributed is deducted from your taxable income in that year

- Early withdrawals before age 59½ may incur taxes and a 10% early withdrawal penalty

5.) SEP IRA

- A SEP IRA is an individual retirement account that an employer or a self-employed person can open and fund
    - *Limited to sole proprietors, partnerships, and corporations*

- Contribution Limits (2024)
    - Limits are $69,000 or 25% of yearly compensation
        - Applies to the Self-Employed Person & any Employees
        - The employer's contributions **must be the same percentage** of compensation for **all** eligible employees
        - Contributions are then tax-deductible for the employer

- Employee Eligibility
    - Must be 21 years of age or older
    - Must have at least 3 years of employment
    - $750 compensation minimum for the employee (2023)

- Eligibility for Multiple Plans
    - If someone is also eligible to participate in another employer-sponsored retirement plan (such as a 401(k)), the **total contribution limits for both plans is $23,000**

Employees and Potential Complications

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1. Payroll & Benefits Administration
    - **Payroll Processing**
        - Calculating & processing employee salaries/wages
            - Overtime, bonuses, deductions, etc.
    - **Tax Withholding & Reporting**
        - Withholding federal, state, & local income taxes
        - Preparing the correct payroll tax forms
    - **Benefits Administration** *(if offered)*

        - Health insurance
        - Retirement plans (401(k), SEP IRA, FSA, etc.)
        - Proper facilitation
    - **Compliance w/ Employment Laws**
        - Minimum wage
        - Overtime requirements
        - Family/medical leave
        - Anti-discrimination laws
        - Being able to stay up to date with the various federal, state, and local employment laws and regulations
    - **Record Keeping**
        - Employers need to maintain accurate and organized records of employee wages, tax withholdings, benefit elections, and other related documents

2. Recruitment & Onboarding
    - **Recruitment Strategy**
        - Posting and managing job listings
    - **Candidate Screening**
        - Finding the best, most qualified candidates
        - Background checks, reference checks, skill assessments, etc.
    - **Onboarding Process**
        - Introducing new hires to the organization and its culture, policies, procedures, etc.
        - Training and mentorship

3. Employee Management & Retention
    - Overseeing performance
    - Addressing conflicts and implementing disciplinary action
    - Offering competitive benefits & pay
    - Creating an environment for a motivated and engaged workforce

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Benefits of Non-Qualified Savings

What are non-qualified savings plans?

- A type of tax-deferred, employer-sponsored *retirement plan* that falls outside of Employee Retirement Income Security Act (ERISA) guidelines.

Most common type of non-qualified savings plans:

1. Deferred Compensation Plan
    - ***Non-qualified savings plan that allows eligible participants to defer a portion of their compensation until a future date, usually in retirement***
        - This can include salary, bonuses, other forms of compensation
        - The participant chooses the percentage or amount to defer and selects the timing of the deferral (e.i., each paycheck, quarterly, annually)
        - Usually only available to top-level executives
    - ***Investment Options***
        - May include mutual funds, stocks, bonds, or other investment vehicles
        - Growth is **tax-deferred** until distributions are made
    - ***Time of Distribution***
        - Typically at retirement, participants can start receiving payments from their deferred compensation account
        - Distribution options may include a lump sum payment, periodic payments over a specified period, or annuity payments
    - ***Taxation***
        - Tax treatment depends on whether the deferrals were made on a pre-tax or after-tax basis
            - Pre-tax deferrals and their investment earnings are subject to ordinary income tax upon distribution

So why choose to use a Non-Qualified Plan?

- Flexibility
    - Non-qualified savings plans offer greater flexibility in terms of contribution limits and withdrawal rules compared to qualified plans. You usually have more control over the amount of contributions and at what time you withdraw the funds
- Higher Contribution Limits
    - Non-qualified savings plans typically allow for higher contribution limits compared to qualified plans. While qualified plans have annual limits set by the IRS, non-qualified plans may have higher thresholds or no limits at all, depending on the specific plan design and restrictions
- Customization for Your Needs

  - May have more flexibility in designing the plan features, such as contribution schedules, vesting schedules, and distribution options
- Early Access to Funds
  - Non-qualified savings plans do not have early withdrawal penalties or required minimum distributions (RMDs) once you reach a certain age. This means you can access the funds in the plan before retirement if the need arises, without incurring penalties. However, it's important to consider the tax implications of early withdrawals and the impact on long-term savings.
- Tax Diversification
  - Non-qualified savings plans can provide tax diversification in your retirement portfolio. While qualified plans offer tax-deferred growth or tax-free withdrawals (in the case of Roth accounts), non-qualified plans are funded with after-tax dollars. This can be advantageous if you anticipate being in a higher tax bracket in retirement or if you want to balance taxable and tax-advantaged income sources.

Business Value Should NOT Be Overlooked

Business value reflects the financial performance and profitability of a company. It takes into account factors such as revenue, earnings, and cash flow. Understanding the value of your business helps you assess its financial health and attractiveness to potential investors or buyers.

Exit Strategy and Succession Planning

Business value plays a pivotal role in exit strategies and succession planning. Whether you plan to sell your business, pass it on to family members, or retire, knowing its value helps in setting realistic expectations and maximizing the return on your investment. It allows you to prepare adequately for a smooth transition and ensure the continuation of your business's legacy.

Real Estate as Part of the Portfolio

Diversification

Real estate can provide diversification by adding an alternative asset class to your retirement portfolio. It can help reduce risk by spreading your investments across different types of assets, such as stocks, bonds, and real estate.

Potential for Income Generation

Real estate investments, such as rental properties or real estate investment trusts (REITs), can generate regular income through rental payments or dividends. This income can supplement other sources of retirement income, such as pensions or retirement accounts.

Potential for Appreciation

Real estate values have the potential to appreciate over time, allowing you to benefit from capital appreciation. This can contribute to the growth of your retirement savings and provide potential wealth accumulation.

Hedge Against Inflation

Real estate investments have historically shown the ability to act as an inflation hedge. Rental income and property values often rise with inflation, helping to preserve purchasing power over the long term.

Tax Advantages

Real estate investments can offer tax advantages. For example, rental property expenses, such as mortgage interest, property taxes, and depreciation, may be deductible. Additionally, certain retirement accounts, like self-directed IRAs or solo 401(k)s, can be used to invest in real estate with potential tax advantages.