



OWNER-ONLY 401(k) PLAN

General Overview

What is an Owner Only 401(k)?

An Owner Only 401(k) is a retirement plan for companies owned by an individual (and possibly a spouse). Many terms are used in the market place to describe these plans including Owner-K, Uni-K, or Single-K, but the function of these plans is not necessarily any different from a traditional 401(k) Profit Sharing Plan. The major difference has to do with the tax filing. Owner-Ks with less than \$250,000 in total assets are not required to have a Form 5500ez filed. Once the account balance exceeds \$250,000 or the plan is terminated, then the Form 5500ez is required. Any entity can establish these plans (sole proprietorship, S-Corp, partnership, etc.), and spouses are often added to the payroll to increase contributions.

Contribution Limits

Owner only companies have direct control of making either employer contributions or employee deferrals. Employer contributions can not exceed 25% of the total earned income. Employee 401(k) deferrals can reach 100% of income not to exceed \$23,000 (\$30,500 if 50 or over). Both sources can be combined for a maximum combined limit of \$69,000 (\$76,500 if 50 or over). These are the 2024 limits.

Owner-K vs. SEP IRA

SEP IRA contributions mimic the employer limit on Owner-K plans. They are limited to 25% of individual earned income. The combined individual limit is also \$69,000. No employee deferrals are allowed. This means if the 25% limit on the SEP does not allow for the desired contribution, the Owner-K may allow for higher contributions of up to \$23,000 through 401(k) deferrals. This additional 401(k) deferral can be very useful when a spouse is on the payroll. In the below example an extra \$46,000 is gained through the 401(k) deferrals of the Owner-K. See the below example.

Employer	Age	Compensation	SEP	Profit Sharing	401(k)	Owner K Total	DB
Owner	45	\$100,000 W-2	\$25,000	\$25,000	\$23,000	\$48,000	\$159,000
Spouse	45	\$30,000 W-2	\$7,500	\$7,500	\$23,000	\$30,500	\$88,000
Total			\$32,500			\$78,500	

There is a “break even” point when the SEP will allow for the same individual contribution as the Owner-K. If an individual makes \$276,000 or over, the \$69,000 limit can be met. The SEP will allow for the same contributions as the Owner-K. The “break even” point for a Sole Proprietor is \$345,000 Net Schedule C since the calculation is handled differently for this type of entity.

Employer	Age	Compensation	SEP	Profit Sharing	401(k)	Owner K Total
Owner	45	\$276,000 W-2	\$69,000	\$69,000	-	\$69,000

Additional Benefits to Owner-K

A few other advantages exclusive to the Owner-K include Roth 401(k) after tax deferrals, an additional \$7,500 catch up for participants over age 50, which increases the individual limit to \$76,500 easier access to open investment architecture, and the availability for plan loans.

Contributions over \$69,000

If contributions are desired over \$69,000 and the employer is roughly over age 35, then an Owner Only Defined Benefit plan (DB) should be considered.