What Is a Self-Employed Retirement Plan?

A self-employed retirement plan is a tax-deferred retirement savings program for self-employed individuals. In the past, the term "Keogh plan" or "H.R. 10 plan" was used to distinguish a retirement plan established by a self-employed individual from a plan established by a corporation or other entity. However, self-employed retirement plans are now generally referred to by the name that is used for the particular type of plan, such as SEP IRA, SIMPLE 401(k), or self-employed 401(k).

Self-employed plans can be established by any individual who is self-employed on a part-time or full-time basis, as well as by sole proprietorships and partnerships (who are considered “employees” for the purpose of participating in these plans).

Unlike IRAs, which limit tax-deductible contributions to $5,500 per year (in 2015), self-employed plans allow you to save as much as $53,000 of your net self-employment income in 2015, depending on the type of self-employed plan you adopt.

Contributions to a self-employed plan may be tax deductible up to certain limits. These contributions, along with any gains made on the plan investments, will accumulate tax deferred until you withdraw them.

Withdrawal rules mirror those of other qualified retirement plans. Distributions are taxed as ordinary income and may be subject to an additional 10% federal income tax penalty if taken prior to age 59½. Self-employed plans can typically be rolled over to another qualified retirement plan or to an IRA. Annual minimum distributions are required after the age of 70½. Unlike the case with other qualified retirement plans, hardship distributions are not permitted with a self-employed plan.

You can open a self-employed plan account through banks, brokerage houses, insurance companies, mutual fund companies, and credit unions. Although the federal government sets no minimum opening balance, most institutions set their own, usually between $250 and $1,000.

The deadline for setting up a self-employed plan is earlier than it is for an IRA. You must open a self-employed plan by December 31 of the year for which you wish to claim a deduction. However, you don’t have to come up with your entire contribution by then. As with an IRA, you have until the day you file your tax return to make your contribution. That gives most taxpayers until April 15 to deposit their annual retirement savings into a self-employed plan account.

Each tax year, plan holders are required to fill out Form 5500, for which they may need the assistance of an accountant or tax advisor, incurring extra costs.

If you earn self-employment income, a self-employed plan could be a valuable addition to your retirement strategy. And the potential payoff — a comfortable retirement — may far outweigh any extra costs or paperwork.