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Thread: [SEP IRAs for those self-employed peeps \(More Retirement Info\)](#)

TrueKings - December 24, 2020, 8:12 pm

When it comes to retirement planning, there are more account types, rules, and exemptions than there really should be. However, due to this of choice, you have a lot of freedom in how and where your money is allocated. Today we are going to dive into just one account type within just one scenario – SEP IRA's for self-employed individuals.

As tax season is upon us, many people are looking at how to minimize their gross income this year. For regular employees, this is as simple as putting more money into your 401(k) or Traditional IRA. For those that are self-employed the question becomes a little more complex. You likely do not have a 401(k), unless it is from a previous employer, and the limits on a traditional IRA might be too low for your needs. If that is the case, a SEP IRA could be beneficial.

Contributions to a SEP IRA have incredibly high limits – the lesser of 25% of your income or \$57,000. These limits are deductible from your federal and state taxes. Sadly, you will still have to pay self-employment tax (I have a few ways to structure around this problem as well). However, if you have an HSA account, you can deposit up to \$3,550 into that, which is entirely tax-free money to be used for medical expenses throughout your life. I will go more in depth on HSA's in a later article. Even though 15% of your income is disappearing to Social Security and Medicare, depositing 25% of your income into your retirement can still save you an immense amount of money come tax season. Better yet, this money is still yours. You may not have access to it immediately, but in the long run these funds will allow you to worry less in your later years. You have time right now, and a lot of earning potential. This potential eventually begins to fall off as you enter your years of retirement. The earlier you save, the less you must save overall. So, save early, and save often. And honestly, don't you agree that future you deserves this money far more than Uncle Sam?

Now that you have deposited 25% of your past year's income into a SEP IRA, how do you go about investing it? Well, like most all IRAs you have complete control over your investment strategy. Depending on where you opened your SEP account, you may be limited in choices, but, in general, you are able to invest in just about anything. It is easier for me to list what you cannot invest in, which are as follows –

- Most coins
- Antiques or Collectibles
- Life insurance
- Unlimited loss derivative positions

Beyond those four vehicles, the sky is the limit. You can purchase stocks, bonds, ETF's, mutual funds, etc. That said, even though you can invest in anything does not mean you should. Be careful to always understand where you are in life, and what your projected risk tolerances are. If you are older or approaching retirement age, your risk tolerance is going to be lower than someone in their 20's as you are approaching the income stage of your life.

At the end of the day, SEP IRA's are great retirement options – especially for those that are self-employed. They have some of the highest contribution limits as well as high flexibility when it comes to what you can and cannot hold. If, as a self-employed individual you have been debating on opening a retirement account for the deduction, as well as for your future, a SEP IRA might very

well be your best path forward.