

Solo 401(k) Plans Should Lead Highly Skilled Workers To Join Gig Economy

Insights

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We reported last year about the importance of a new retirement system for the gig economy. Typical gig workers are currently not entitled to enjoy a traditional employer-based retirement plan because the law only permits such plans to cover employees and not independent contractors. But the need for gig workers to have opportunities to save for retirement has done nothing but increase in recent years. Research shows that there are 56.7 million freelancers in the United States and Congress has yet to pass legislation creating a retirement system for them.

Luckily, gig workers may be able to create a Solo 401(k) plan to assist with their retirement planning. According to a recent article from Forbes, a gig worker can establish a Solo 401(k) plan if they are self-employed or have a business with no full-time employees other than the owner or their spouse.

There are some unique aspects of a Solo 401(k) plan. For example, they offer higher contribution limits, a tax-free Roth option, the ability to borrow from the plan, and to leverage real estate with tax incentives. Solo 401(k)'s offer an employee deferral and a profit-sharing contribution option with a maximum contribution of \$56,000 for 2019. This is in contrast to a Simple IRA which is limited to a total annual contribution of \$13,000.00 or a traditional employer-based plan with a limit of \$19,000 for 2019.

Gig workers could also choose to contribute after-tax earnings, which allows them to receive tax-free distributions during retirement. Additionally, Solo 401(k) also allows the participant to borrow up to 50% of the account value (up to \$50,000.00).

As more workers join the gig economy, Solo 401(k)s will likely assist them with retirement planning. They create an incentive for skilled individuals to leave traditional employment and carve their own career path. Businesses that operate in the gig world should monitor eligibility requirements for Solo 401(k)'s as they may create new opportunities to recruit highly skilled freelancers.

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