# 2025 · SHOULD I SET UP A TRADITIONAL 401(K) FOR MY BUSINESS?

FOREFRONT

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Does your business have employees?

No

Yes

Do you want to contribute more than $70,000 in a retirement account?

No

Yes

Are you an older business owner?

No

Yes

Are you looking to contribute more than 25% of your net compensation?

Yes

No

Consider a Solo 401(k), which is easier to set up and administer than a traditional 401(k).

What is most important when evaluating a retirement plan?

Are you willing to make employer contributions on behalf of your employees?

No

Yes

Consider a defined benefit pension plan, which may allow you to contribute significantly more than a 401(k).

Consider a SEP IRA because it is one of the easiest plans to administer.

Overall, contributions cannot exceed the lesser of 100% of compensation or $70,000 (plus catch-up contributions).

Having flexibility in plan rules and employer contributions.

Consider a traditional 401(k), which allows for discretionary employer contributions, subject to testing.

Consider a starter 401(k), which does not require employer contributions and has lower administrative costs than a traditional 401(k).

Contributions are based on a mandatory, actuarially calculated amount based on a benefit the lesser of a participant's salary or $280,000.

Contributions can't exceed the lesser of 25% of your net compensation or $70,000.

Being able to contribute as much as you can for retirement or reduce taxable income.

Are you willing to make mandatory contributions for yourself and employees?

No

Yes

Consider a traditional 401(k), which will allow you to contribute as much as $70,000 (plus catch-up contributions), subject to testing.

Consider pairing up a 401(k) with other retirement plans to contribute more.

A solo 401(k) or SEP IRA may be established and funded this year for the prior tax year by the tax filing deadline (including extensions for SEP IRAs only).

Having a plan that is easy and simple to set up and administer.

Do you have 100 or fewer employees who earned $5,000 or more last year?

Yes

No

Consider a SIMPLE IRA (or SIMPLE 401(k) if you want loan features) because they are easier to set up and administer than a traditional 401(k). See the "Should I Establish A SEP IRA Or A SIMPLE IRA Plan For My Small Business?" flowchart.

Consider a Safe Harbor 401(k), which is easier to set up and administer than a traditional 401(k).

Employee contributions cannot exceed $23,500 (plus catch-up contributions) and you must either match employee contributions (up to 4% of their salary) or make mandatory contributions (3% of their salary).

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