Retirement possible without employer-provided 401(k)

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Saving for retirement can be complicated and confusing.

Even though the common savings vehicle is a work-provided 401(k), many Americans still don't have access to that option. According to a 2018 report by the Stanford Center on Longevity, only about half of all households are offered work-based retirement plans.

Though a 401(k) might be one of the easier ways to save, Craig Petti, principal at HW Financial Advisors in Beachwood, and Tessa Steinemann, assistant vice president and relationship manager at Civista Bank in Sandusky, said there are other ways to save for retirement.

First, Petti said it's important to know the available options.

"There are many ways to save outside of an employer-sponsored retirement plan," he said. "Individuals can look at contributing to individual retirement accounts, or IRAs, traditional after-tax investment accounts, savings accounts, and in some cases, other tax-deferred strategies. Each option has different tax ramifications, but all can be used to save for retirement. As always, make sure to speak with your financial adviser and tax professional to find out the pros and cons of each, and what might be best for you."

Now, there are many options individuals can explore when planning for retirement without an employer-provided plan.

"Some alternatives to a 401(k) would include a SEP-IRA, where the employer makes the contribution and not the employee; a SIMPLE IRA, where employees can contribute up to $13,000 in 2019 and there is a match from the employer that is immediately vested; a money purchase pension plan, where the employer contributes the lesser of 25% of W2 pay or $56,000 in 2019; and the traditional/Roth IRA, which is done outside of the employer with a max contribution of $6,000 in 2019," Petti said.

Steinemann noted individuals can also look into using their health savings account.

"That is if you're eligible and have a high-deductible health insurance plan," she said. "That goes in tax-deferred, and if you use it for medical expenses, it comes out tax-free."

For those who are self-employed, options exist for them too, Petti stated.

"It depends on the owner's situation," he explained. "We take into account age, annual income, desired funding amounts, number of employees, etc. to come up with the best solution. The types of retirement options include a traditional 401(k) or solo 401(k), a profit-sharing plan, SEP-IRA, SIMPLE IRA, a Money Purchase Pension Plan, Traditional and/or Roth IRAs and non-qualified deferred comp."

In many cases, Petti said a 401(k) or solo 401(k) is the best option.

"It allows a self-employed individual to put away a significant amount of money each year for retirement," he stated. "But, make sure you consult your adviser to find out what best suits your needs."

In Steinemann's opinion, a SEP-IRA would be the best choice for self-employed individuals looking to save.

"It has higher contribution limits and you can save more each year," she stated. "It's a little more complicated, as it depends on how much you make each year. You should meet with your accountant to determine that amount."

Petti said an adviser's role is to assist clients in choosing the right plans for their situation.

Petti

Steinemann

"An adviser, like myself, can help in almost every situation," he said. "If you are the business owner or self-employed, we can help find the best retirement plan solution based on your needs and your employees' needs. We can set those plans up and monitor them on an ongoing basis."

Steinemann said the retirement savings process can be confusing for everyone, but even more so for those who are looking to independently save.

"It is definitely confusing for anyone who is not familiar with investments or these different types of plans," she said. "It's about determining what plan is best for you. Every situation is different – so what is best for one person might not be best for the next."