

Keogh Plans

Additional retirement savings for those who also work for themselves.

A guide for federal employees, retirees and their families in Puerto Rico and the United States.

What is a Keogh?

- 01 A qualified retirement plan linked to a business or self-employment activity.
- 02 Money is contributed to the plan and invested according to its rules.
- 03 It can be set up as a defined contribution or a defined benefit plan. For defined benefit, an actuary calculates the required funding.

Does it apply to a federal employee?

- 01 Federal salary only: that salary does not allow you to set up your own Keogh.
- 02 Federal salary and a side business: eligible income from the business may allow it.
- 03 Retiree with a pension and independent work: the income from that work is evaluated. A pension alone does not create eligibility.
- 04 Example: a VA employee also offers consulting. The Keogh analysis starts from the consulting.

How it works

- 01 Eligible income and the tax jurisdiction are verified.
- 02 The plan is designed and the employees who must participate are identified.
- 03 Contributions are made and invested according to the plan document.
- 04 Filings, maintenance and distribution rules are followed.

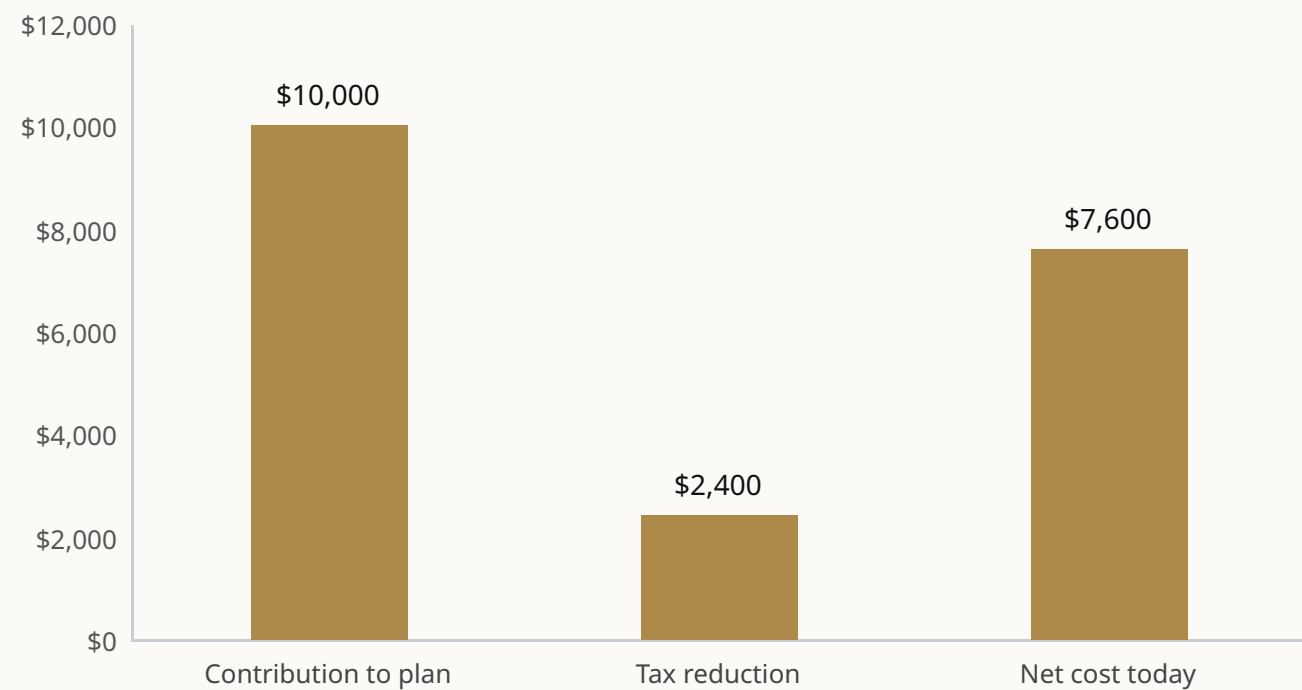
A plan in Puerto Rico must be evaluated for local qualification. IRS qualification does not automatically equal Hacienda qualification.

Example: a tax deduction today

Hypothetical deductible contribution:
\$10,000.

Assumed marginal rate: 24%.
Estimated reduction in current tax:
\$2,400.

The net cost today would be \$7,600,
while the plan still receives \$10,000.



Dollars, hypothetical example

Illustration: $\$10,000 \times 24\% = \$2,400$. Assumes the full deduction is allowed. Excludes costs and other taxes. Distributions may be taxed later.

Benefits when you retire

- 01 You may have an additional fund to supplement your federal pension and other retirement income.
- 02 Deductible contributions and tax deferral can help you build for the future. Taxes may apply when money is distributed.
- 03 The fund can help cover health, housing or personal projects. You should plan how much to withdraw and for how long.

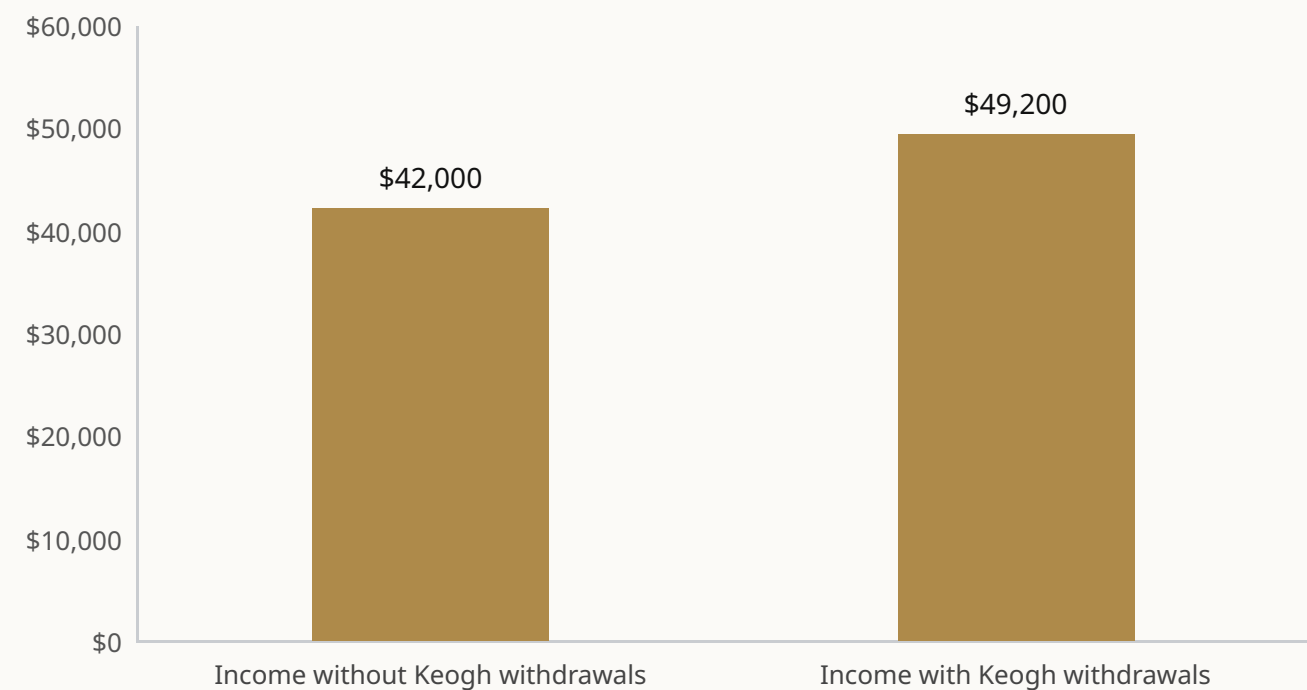
Income depends on the capital accumulated and the investments. A Keogh on its own does not guarantee returns or lifetime payments.

Example of additional retirement income

Hypothetical income: a \$24,000 federal pension and \$18,000 in Social Security per year.

A \$120,000 Keogh fund could fund withdrawals of \$600 a month: \$7,200 a year.

Illustrative gross income would rise from \$42,000 to \$49,200 a year.



Hypothetical annual gross income in dollars

Example without returns, taxes or costs. $\$120,000 \div \$600 = 200$ months (16 years and 8 months). The fund would be depleted. Not a quote, a Social Security eligibility determination, or a lifetime annuity.

Protection in a lawsuit

- 01 Example: an owner is personally sued. Whether the creditor can reach the plan depends on the applicable laws.
- 02 A plan subject to ERISA generally has creditor protections. There are exceptions.
- 03 A plan that covers only the owner and spouse is generally outside ERISA Title I. Protection must be evaluated under other laws.

Protection can change when money is withdrawn or transferred. Creating a plan does not guarantee immunity or validate fraudulent transfers.

What happens in a divorce

- 01 Example: \$200,000 was accumulated during the marriage. The court may recognize rights for the former spouse.
- 02 In a plan subject to ERISA, a valid QDRO can assign part of the benefits to the former spouse.
- 03 The share depends on the facts and marital law. Creating a Keogh does not remove a spouse's rights.

The attorney and the plan administrator must confirm the required order. TSP and FERS/CSRS orders have their own rules.

What happens with inheritance

- 01 The plan document and beneficiary designation determine how benefits are paid, subject to the spouse's rights.
- 02 In Puerto Rico, Act 219 distinguishes qualified retirement plan trusts from family trusts.
- 03 For these retirement plans, Article 71 excludes their assets from civil inheritance provisions. Article 70 protects the spouse's rights.

This does not mean every distribution is exempt from income tax. The designation must meet the plan's requirements.

The \$15,000 in Puerto Rico

- 01 For certain eligible periodic pensions: an exclusion of up to \$15,000 a year if you are 60 or older. Under 60: up to \$11,000.
- 02 It can include pensions from federal systems and plans qualified under Section 1081.01, if the requirements are met.
- 03 A qualified Keogh with eligible periodic payments could apply. Opening the account does not automatically grant the exclusion.

Source: Hacienda 2025 instructions, Schedule H, published in 2026. A lump-sum withdrawal, an IRA or any private annuity is not presumed eligible.

Example of an eligible pension in PR

A 62-year-old with an eligible periodic pension of \$24,000 a year.

Up to \$15,000 could be excluded from income for Puerto Rico tax purposes.

The remaining \$9,000 is analyzed under the other tax rules.



Dollars per year, hypothetical example

Simplified example, without recovery of after-tax contributions or other deductions. The PR exclusion does not by itself remove the federal obligation.

Puerto Rico and the states

- 01 The \$15,000 exclusion is a Puerto Rico rule. Each state has its own rules for retirement income.
- 02 At the federal level, taxation depends on the type of distribution and after-tax contributions, among other factors.
- 03 If you move, residence, income source and the plan's treatment must be re-evaluated.

There is no nationwide \$15,000 exclusion simply for having a Keogh.

How it fits with your federal retirement

- 01 A Keogh can add savings from an eligible business while you keep your TSP and FERS/CSRS planning.
- 02 Before contributing: review income, plan costs, obligations to employees, and money set aside for emergencies.
- 03 PWR provides educational guidance. Plan design and legal and tax review belong to licensed professionals.

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Official sources and scope

Accessed October 7, 2026. Rules may change.

1. [www.irs.gov / p560](https://www.irs.gov/publications/p560)

<https://www.irs.gov/publications/p560>

2. [www.irs.gov / self-employed-individuals-calculating-your-own-retirement-plan-contribution-and-deduction](https://www.irs.gov/retirement-plans/self-employed-individuals-calculating-your-own-retirement-plan-contribution-and-deduction)

<https://www.irs.gov/retirement-plans/self-employed-individuals-calculating-your-own-retirement-plan-contribution-and-deduction>

3. [www.irs.gov / tc410](https://www.irs.gov/taxtopics/tc410)

<https://www.irs.gov/taxtopics/tc410>

4. [www.dol.gov / retirement-plans-and-erisa](https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/faqs/retirement-plans-and-erisa)

<https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/faqs/retirement-plans-and-erisa>

5. [www.dol.gov / 2006-04a](https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/advisory-opinions/2006-04a)

<https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/advisory-opinions/2006-04a>

6. [www.dol.gov / qdros-practical-guide](https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/publications/qdros-practical-guide)

<https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/publications/qdros-practical-guide>

7. [Puerto Rico: Trust Act, as amended 2026](https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/Fideicomisos/219-2012.pdf)

<https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/Fideicomisos/219-2012.pdf>

8. [Hacienda PR: 2025 instructions, Schedule H](https://hacienda.pr.gov/sites/default/files/inst_individuos_2025_27_feb_26.pdf)

https://hacienda.pr.gov/sites/default/files/inst_individuos_2025_27_feb_26.pdf

Illustrative examples. Results depend on the plan, residence, and legal and tax review.