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## Have you earned W2 and 1099 Income



### Do Not Lose Valuable Savings Opportunities

**If you are a high-wage earner** with W2 and 1099 income, you may have retirement savings opportunities available of which you are unaware. The best way to illustrate this is to consider a case study. In this example, I will discuss the savings opportunities of a hypothetical lawyer named Fallon (which happens to be the name of one of my favorite people, my daughter).

Fallon is doing well for herself in her full-time position as a corporate attorney, earning \$200,000 in W2 income. In addition, she also has \$100,000 in 1099 income for consulting assignments that she performs. Fallon is maxing out her 401(k) and taking advantage of her employer's matching contributions. For 2018, the employee max is \$18,500. She is also fortunate to have an employer match of \$6,000, bringing her total 401(k) contributions, combining employer and employee contributions to \$24,500. Not bad! However, can Fallon contribute even more money to her retirement?

**Are there options to shelter even more income** from taxes? The answer to both of these questions is "yes"! There are two popular options of which Fallon can take advantage, a Simplified Employee Pension Plan (SEP IRA) and a Solo 401(k). The Solo 401(k) has its advantages, but in this case, we will focus on the SEP IRA option. I prefer the SEP in this situation because, as the name suggests, they are simple to navigate relative to the 401(k) option.

With a SEP IRA, Fallon can save an additional 20%, or \$20,000 pre-tax, from her 1099 income (actually, slightly less, but those details are best described by a tax professional). Key advantages for the SEP include:

- Tax-deferred savings for retirement
- Plan can be adopted as late as the due date of the tax return (with extensions) for the tax year in question
- Plan can be funded as late as the due date of the tax return (with extensions) for the tax year in question
- Usually no need to file Form 5500 annually
- The contribution rate can vary each year

When combining the 401(k) retirement plan from her employer and the SEP savings plan from her self-employed income, Fallon is now able to put at total of \$44,500 pre-tax income towards her retirement savings.

If you earn 1099 income in any year and retirement savings is part of your financial plan, talk to a financial planner about whether a SEP IRA is a good option for you.

**To review your 'nest egg'** and explore available retirement options to complement your financial plan, please contact **Jeff Mahoney**, CFP®, RICP® at [jeffmahoney@hjsims.com](mailto:jeffmahoney@hjsims.com) or (952) 683-7503.

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