



MANAGING YOUR FINANCES

Turbocharge Savings With a Solo 401(k)

PEOPLE WHO ARE self-employed don't have the option of a company-provided 401(k), but they do have retirement-savings choices of their own. One of the most attractive is the solo 401(k), a relatively new plan. If you fit the bill, you have a great opportunity to pump up your nest egg and cut your tab to the IRS.

To qualify for a solo 401(k), you must either own your own business and have no employees other than a spouse or have income from a side business. Often doctors, lawyers and consultants use these plans, says Jacqueline Besse, executive director of client and partner relations for The Online 401(k), a firm that offers retirement plans to small businesses.

Several years ago, Linda and Allen Crostic set up a solo 401(k) with Besse's firm. The Richmond, Va., couple have had various retirement accounts in the 27 years that they've been in the real estate business. The amount that they can save with a solo 401(k) is what appealed to the Crostics, who are in their fifties. "This plan beats all the others," says Linda.

Only six years old, solo 401(k)s work much like their company-sponsored counterparts. But the self-employed can potentially sock away a lot more money.

With a solo 401(k), you can make contributions as both the employee and the employer. Like an employee with a company 401(k), you can make the maximum employee contribution of \$15,500—those age 50 and older can put in another \$5,000.

But, as the business owner, you can make an additional employer contribution. The maximum

employer contribution is 20% of income for an unincorporated business and 25% for an incorporated one.

There is a maximum total amount that you can contribute. In 2008, it's \$46,000 for those under 50, and \$51,000 for those 50 and up. "A key advantage of the solo 401(k) is that you can save more, especially if you're over 50," says John Knapp, vice-president of retirement products for Fidelity Investments.

When to Go Solo

The solo 401(k) isn't the only savings vehicle for the self-employed. A big factor in deciding which one to use is the amount of income your business brings in.

For those who make less than \$230,000, the solo 401(k) is usually the best option, says Carolyn McClanahan, a certified financial planner in Jacksonville, Fla. The ability to make an employee contribution that's not tied to a percentage of income gives the solo 401(k) the edge, because it allows an owner to contribute more to a nest egg on less income.

Take the SEP IRA, which has the same 20% to 25% contribution of business income but not the employee contribution. To max out on a solo 401(k), an unincorporated business owner must make \$152,500. To contribute the \$46,000 maximum to a SEP IRA, the owner must make \$230,000.

If your business brings in more than \$230,000, the SEP IRA becomes the better choice, says McClanahan. It requires less paperwork, and assets in a SEP IRA are protected by law if you are sued. (A solo 401(k) may not receive that protection.)

One of the most attractive aspects of the solo 401(k) is that you can choose to set it up as a Roth, enabling you to accumulate tax-free retirement income. Only the employee contribution qualifies for Roth treatment. SEP IRAs and other self-employed retirement plans do not offer the Roth option.

You can also vary the amount you put in. In good years, you can max out, while in bad years, you can put in less. "That gives you flexibility," says Rusty Cagle, a certified financial planner in Greenville, S.C.

Dozens of providers offer a solo 401(k). You can choose a third-party administrator, such as The Online 401(k). Some brokerages and mutual fund firms, such as Fidelity, offer them. For a list of providers, visit 401khelpcenter.com.

When shopping for a provider, compare fees. Some charge a setup fee as well as an annual fee. Ask what your investment choices are. And note that not all providers offer the Roth option. **K** —RACHEL L. SHEEDY