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WHICH RETIREMENT PLAN SUITS YOU?

An overview of the retirement plan landscape.

All retirement plans are not the same. In fact, there is such a wide variety of retirement plans that learning more about your choices is a good idea. Here's a brief look at the different plans and what they have to offer.

The Traditional 401(k). Many people have this type of retirement savings plan, and it works like this: The plan is funded with pre-tax dollars taken out of your paycheck (through payroll deductions). If you're lucky, your company will match your level of contribution or even make contributions on your behalf - after all, the employer contributions are tax-deductible.

The I.R.S. will currently let you put up to \$15,500 a year in a Traditional 401(k); that will rise to \$16,000 a year in 2008. However, many employers will only let you contribute up to 10% (or less) of your annual salary. The I.R.S. also allows catch-up contributions (additional contributions from those aged 50+), with a current annual limit of \$5,000.

There are several variations on the traditional 401(k) theme ...

The Safe Harbor 401(k). A byproduct of the Small Business Job Protection Act of 1996, the Safe Harbor plan combines the best features of the traditional 401(k) and a SIMPLE IRA, making it very attractive to business owners. With a Safe Harbor plan, an owner-operator can avoid the big administrative expenses of a traditional 401(k) and enjoy higher contribution limits (currently, a maximum dollar cap of \$45,000 in total employee and employer contributions). The Safe Harbor plan allows for employers to make matching or non-elective contributions. Typically, employers match contributions dollar-for-dollar up to 3% of an employee's income.

The SIMPLE 401(k). Designed for small business owners who don't want to deal with retirement plan administration or non-discrimination tests, the SIMPLE 401(k) is available for businesses with less than 100 employees. Like a Safe Harbor plan, the business owner must make fully vested contributions (up to 3% of an employee's income). But the maximum pretax employee contribution to a SIMPLE 401(k) is \$10,500, and employees with a SIMPLE 401(k) can't have another retirement plan with that company.

The Solo 401(k). Combine a profit-sharing plan with a regular 401(k), and you have the Solo 401(k) plan, a retirement savings vehicle designed for sole proprietors, owners of mom-and-pop businesses, and even those who have a small, legitimate business "on the side" while they work for another employer. These plans currently permit you to contribute up to \$45,000 annually. You can invest Solo 401(k) assets in real estate, and your Solo 401(k) can also borrow money (up to 50% of the account value or \$50,000, whichever amount is smaller). However, if your business grows and you add employees other than your spouse, your Solo 401(k) has to convert to a SIMPLE 401(k) or a Traditional 401(k).

The Roth 401(k). Imagine a Traditional 401(k) fused with a Roth IRA. Here's the big difference: you contribute after-tax income to a Roth 401(k), and when you reach age 59½, your withdrawals will be tax-free (provided you've had your plan for more than five years). The annual contribution limits are the same as those for a Traditional 401(k) plan.

You can roll Roth 401(k) assets into a Roth IRA when you retire - and you don't have to make mandatory withdrawals from a Roth IRA when you turn 70½. With a standard 401(k), you have to roll over the assets to a traditional IRA and make the required withdrawals.

The Roth 401(k) is scheduled to expire in 2010, in addition to many other provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). If you have a Roth 401(k), it's possible that you won't be able to contribute to your account after 2010, unless Congress acts to preserve the EGTRRA.

And then there are SEP-IRA, SIMPLE IRA and Keogh plans ...

The SEP-IRA. This employer-funded plan is designed for businesses with 25 or fewer employees. The employer contributions are 100% vested from the start, and the employer can supplement the SEP-IRA with another retirement plan. Currently, these plans have a \$45,000 maximum contribution limit, and an individual's personal contribution limit depends on such factors as service, performance, and salary.

The SIMPLE IRA. This is like a SIMPLE 401(k) - a small business retirement plan with mandatory employer and optional employee contributions and a \$10,500 annual contribution cap. But in this plan, there is one big difference for the business owner. If the business is not doing well, the owner can reduce plan contributions. The employer contributions are still 100% vested from the beginning.

The Keogh Plan. The Keogh is designed for professional practices and family businesses with ten or fewer highly paid employees. It can be either a defined benefit plan with a \$175,000 annual contribution limit and a fixed, pension-style income for the employee in retirement, or a defined contribution plan with a \$44,000 annual contribution limit and freedom for employees to make their own investment decisions.

Did you know you had so many choices? If you are an employer, you may not have realized you have such an array of choices in retirement plans. But you do, and asking the right questions may represent the first step toward implementing the right plan for your future or your company. Be sure to ask a qualified financial advisor or business retirement plan consultant about your options today.