Retirement Savings Plans

Individual Savings Plans Provide Tax-Advantaged Supplement for Retirement

Compliments of Breedlove & Associates

Although there are many retirement plans available, many are inflexible — requiring contributions from both employee and employer. In addition, managing the administrative and tax requirements on many of the plans can be quite complex. Since families don't have a "benefits department" to establish and manage retirement plans, we strongly encourage plans that are simple to set up and maintain. It saves all parties time, money and frustration. Below are two excellent, simple options:

Roth IRA: Employees, employers or both may contribute up to $5,000 per year (2012) to a Roth IRA ($6,000 if the employee is 50 or older). Contributions are made using after-tax dollars. All growth is tax-free and there are no taxes due when the funds are withdrawn at retirement. This plan gives employees the flexibility to contribute solely or to involve their employers in the retirement plan contributions. Roth IRAs are portable, inexpensive to set up and administer and provide the employee with full control over investments.

Traditional IRA: Employees can contribute up to $5,000 (2012) of their salary per year to a Traditional IRA ($6,000 if the employee is 50 or older). Contributions are tax-deferred, meaning that the contributions are not subject to certain payroll taxes at the time they are earned. However, the withdrawals are taxed at retirement. Employers are not eligible to contribute to Traditional IRAs. Like Roth IRAs, these plans are portable, inexpensive to set up and administer and provide the employee with full investment control.

Here are two additional options. They are not recommended because they are more complex to set up and manage:

SIMPLE IRA (Savings Incentive Match Plan for Employees): This plan allows employees to contribute up to $11,500 (2012) per year and requires employers to make matching contributions of up to 3 percent of their employee's pay. Contributions to a SIMPLE IRA are tax-deferred, meaning that the contributions are not subject to certain payroll taxes and are taxed when withdrawn at retirement.

401(k) Plans: A 401(k) allows employees to contribute a portion of pre-tax salary into a tax-deferred, interest-bearing retirement account. In some cases, employers can agree to match each dollar that employees contribute to the account and receive a tax deduction on their contributions. Please know that 401(k) plans are generally restricted to commercial enterprises and are expensive and time-consuming to administer, typically make it impractical for small employers.

ESTABLISHING A RETIREMENT PLAN

If you don't have a local broker you trust, we recommend the Vanguard Roth IRA. Vanguard, among the most respected financial institutions in the U.S., offers an excellent product for no set up fee, no administration fee and an expense ratio that is one-fifth of the national average. In addition, they have a strong support team available to provide guidance and expertise at every step of the process. For more information, visit Vanguard online or call 800-551-8631.

Individual retirement plans can be a great way to supplement your retirement income over and above Social Security & Medicare benefits. But it's important to avoid expensive or administratively complex plans. Let retirement planning professionals guide you — and keep it simple.