

## *Financially Speaking*

With Trisha Arndt, CFP®

### Beyond the 401k

I received a call recently from a client of mine who works at Epic. He had received information about an option for his 401k contributions to begin receiving Roth treatment and he wanted to discuss the pros and cons as they related to his situation. The Roth 401k option is one that the government made available relatively recently so I was pleased, though certainly not surprised, to see that Epic is offering it to their workforce. For the right situation it could prove a very useful way of saving for retirement.

Unfortunately, not all of us are fortunate enough to work for an employer that is as proactive in the arena of retirement benefits. In fact, a significant number of those of you reading this likely either work for yourself or for an employer that doesn't offer a retirement plan at all.

So when you read a financial self help book or look at savings calculators on-line that all suggest maxing out your 401k contributions (or at least whatever percentage the employer matches) you may find yourself wondering, what about me?

The good news is that there are lots of options available today for retirement savings, even if you don't have access to a 401k or similar plan (i.e. 403b, 457, etc.).

Individual Retirement Accounts (IRAs) have been around for some time and are commonly thought of as an alternative. IRAs are similar to 401ks in that pre-tax money is put away (you get a tax deduction for what you put in an IRA), the account may grow tax deferred and you pay taxes on the money when you withdraw it, hopefully in retirement. IRAs are generally more limited than a 401k in terms of how much you can contribute, when you may withdraw and what taxes and penalties will apply and income limitations on eligibility may apply.

About a decade ago congress finally smartened up to the fact that the population was aging and hadn't saved enough for retirement, especially given the perilous situation that social security is facing. Though the IRA had been around for some time they realized that more needed to be done. They began passing legislation to both make it easier to establish retirement plans and to incentivize people through tax benefits to utilize them.

One of the first things congress did was to increase the amount that can be contributed to retirement plans. At about the same time they took a look at the retirement plan options available and decided that it was time to add some new ones.

The Roth IRA was one of the first on the table. Roth IRAs (Roths) are individual retirement accounts similar to IRAs but with different tax treatment and eligibility restrictions. Unlike IRAs, there is no tax deduction for contributions to Roth IRAs. Once

in the account however the money may grow without tax consequence and, if all guidelines are met, can potentially be withdrawn completely tax free – earnings and contributions.

Congress has also worked to make it easier for self employed and small business owners to put retirement plans in place.

One popular alternative for small businesses is the Simple IRA (Simple). In many ways similar to a 401k, the Simple allows employees (and owners) to contribute pre-tax money to a retirement plan but removes much of the administrative cost and burden of traditional retirement plans. Self employed individuals will also use Simples as the amount that can be contributed can be up 100% of a person's earnings, subject to an annually adjusted maximum (currently \$10,500 plus a catch up for those over 50).

A plan that is commonly used by self employed individuals, as well as small business owners, is the Simplified Employee Pension (SEP IRA). SEP IRAs work similar to IRAs but allow contributions based upon a percentage of earnings or net self employment income up to a maximum dollar amount. Like Simples, there is minimal administrative cost or hassle associated with SEP IRAs.

There are quite a few additional alternatives available, with more options being added regularly. The bottom line is that there is almost certainly a plan out there that will allow you to save for retirement on a tax advantaged basis. To find the one that is right for you consult your tax or financial advisor or research alternatives on-line at [www.irs.gov](http://www.irs.gov).

Even if you don't work for Epic or a company like it, you can take advantage of a retirement plan.

If you have a question that you would like answered or a suggestion for a topic that you would like to see in a future issue, e-mail [trisha@wealthstrategies.biz](mailto:trisha@wealthstrategies.biz).

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