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Memorandum

To: Clients, Friends, Family & Associates of Pro@ctive CPA
From: Mark Wyssbrod, Managing Member
Date: September 24, 2011
Re: Most Common Retirement Vehicles

It seems as in today's world you get choices of just about everything! Choices allow us to pick the right products for us. However, with every additional choice comes the task of differentiating amongst the selections. We must become more educated to select the best choice for us.

One of the choices we face is how to fund our retirement and by which retirement vehicle. We will discuss the most widely held retirement plan types and their general structure this article. The annual contribution amounts change annually. For specific information please contact us.

Retirement plans are important for multiple reasons: they can help us reach our goal of retirement; they can protect assets from creditors; they can diversify asset classes; they can diversify risk levels; and they can have short-term tax benefits. So even if you do not want to save to retire, a retirement plan has other important aspects to consider.

401(k) Plans
A 401(k) allows an employee of a business to save for retirement and allows an employer to remit a matching portion. Traditionally, a 401(k) plan allows an employee to defer income taxes until retirement (i.e. pre-tax contributions). Most recently change allows an employee to make a Roth election. A Roth election allows an employee to make the retirement contributions after-tax which allows the Roth portion of the 401(k) to be distributed tax free in retirement (age 59 ½ and older).

The employer match can be calculated in several ways including, but not limited age, tenure of service, compensation and no match. The employer is required to complete "testing" (which is costly) to prove to the Federal Government the plan does not discriminate.

The employee selects the investments and takes the risk.

Deadlines:

- **Employers must set up 401(k) plans for the year by December 31st**
- Employees must fund their portion by December 31st
- Employers have until tax return deadline to remit the matching portion (extension included)

SIMPLE IRA
A SIMPLE IRA behaves very similarly to a Traditional 401(k). The main difference is the employer is required to match and all contributions are pre-tax (i.e. no Roth election). Generally, the employer match is 3% of wages which the employee contributes. No plan testing is required by the employer (which keeps the cost of the plan to a minimum).

The employee selects the investments and takes the risk.

Deadlines:

- **Employers must set up SIMPLE IRA plans for the year by October 1st**
- Employees must fund their portion by December 31st
- Employers have until tax return deadline to remit the matching portion (extension included)

SEP IRA
A SEP IRA is popular with small companies as well as sole proprietors. The employer funds the entire amount (i.e. the employee doesn't have to make any contribution). If the SEP is for a company when the employer match can be as much as 25% of wages (based on Medicare wages). If the SEP is for a sole proprietor then the match is about 20% (based on the Self-employment income with an adjustment for half of the self-employment taxes).

The employee selects the investments and takes the risk.

Deadlines:

- **Legal entities (LLC and Inc.) must set up SEP IRA plans for the year by December 31st**
    - Employers have until tax return deadline to remit the matching portion (extension included)
- **Sole proprietors (which are non-legal entities) have until their filing deadline to set up the plan and remit the contribution (extensions included)**

Traditional IRA
A Traditional IRA allows an individual to remit funds to a designated retirement account. The funds can be tax deferred (pre-tax) as long as the taxpayer is not a participant in another retirement plan during the year and income is under a certain limit (currently $167,000 for individuals married filing jointly, but changes annually).

A non-deductible Traditional IRA contribution can lead to tricky and confusing calculations when distributions are received.

The individual selects the investments and takes the risk.

Deadlines:

- **Individual can set up and fund their Traditional IRA by April 15th after the end of the year**

Roth IRA

A Roth IRA is an after-tax contribution. This allows you to receive tax free money in retirement (age 59 ½ and older). A benefit of the Roth IRA is any contributions (not income or growth) you make can be withdrawn before age 59 ½ not subject to penalties or tax. Roth participants are required to have income under a certain limit (currently $167,000 for individuals married filing jointly, but changes annually).

The individual selects the investments and takes the risk.

These are the most common retirement vehicles. Other retirement plan types still exist, such as pension plans, but a not widely used for the common small business or individual. The primarily reason is the shift from the employer to the employee (or individual) during the past 30 years.

Please contact your Pro@ctive CPA team should you have any questions or would like to discuss the retirement plan which would best fit your goals.

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