

Saving for Retirement

Rev Up Your Retirement Savings This Year

With the stock market under performing in recent years and interest rates at historic lows, many investors have seen their retirement nest eggs dwindle. That's why it's important to make retirement savings a priority.

The increased annual contribution limits for Individual Retirement Accounts (IRAs), 401(k) plans and similar employer-sponsored retirement plans available under the 2001 tax law changes make this even easier.

Make the most of your 401(k)

If your company offers a 401(k) retirement savings plan, contribute the maximum. With a 401(k), your contributions are automatically deducted from your paycheck and reduce your current taxable earnings. You defer paying taxes on your plan contributions and earnings until you begin to make withdrawals, typically in retirement.

Matching contributions from employers represent another significant benefit of 401(k) plans. Many employers match their employees' contributions, which equates to getting free money from your employer.

Employer contributions are added to your own savings and are not subject to the employee contribution limits. For 2004, \$13,000 is the maximum annual tax-deferred employee contribution to a 401(k), 403(b) (for employees of nonprofits), and 457 plans (for state and local government employees). If you're over age 50 by the end of the plan year, you can contribute up to an additional \$3,000 as a "catch-up" contribution in 2004.

Don't overlook IRAs

If you've maximized your contribution to an employer-sponsored retirement plan, or if your company doesn't offer one, consider a traditional or Roth IRA. Depending on your income, filing status, and whether you're covered by another retirement plan, you may be able to deduct all or part of your contribution to a traditional IRA.

Contributions to a Roth IRA are never deductible but, if you meet the holding requirements, all future withdrawals of contributions and earnings are tax-free to you or your beneficiaries. For 2004, you can contribute up to \$3,000 to a traditional or Roth IRA. If you are 50 or older before the close of the year, you are eligible for the \$500 "catch-up" contribution as well.

Be aware that, if your adjusted gross income (AGI) is more than \$95,000 on a single return or \$150,000 on a joint return, your right to contribute to a Roth IRA is gradually phased out. Once your AGI reaches \$110,000 (single) or \$160,000 (joint), you may not contribute to a Roth IRA.

You have until April 15 to make a traditional or Roth IRA and make your contribution for the previous tax year. But by contributing to an IRA at the beginning of the tax year, you can accumulate tax-deferred (or in the case of a Roth IRA, tax-free) earnings much earlier and benefit the most from compounded earnings.

Choices for self-employed workers

Self-employed workers and small business owners have four basic choices for retirement plans: a simplified employee pension plan (SEP), a Keogh, a SIMPLE, or an individual 401(k). Each allows you to invest pre-tax money and each grows tax-deferred until the funds are withdrawn in retirement. A CPA can help you determine the best plan for your business.

Monitor your retirement savings

Finally, keep in mind that ongoing management of your retirement portfolio is critical. Carefully review the performance of your investments and make any necessary adjustments. You'll want to consider whether to change your asset allocations as you get closer to retirement. A CPA can provide valuable advice in implementing an effective retirement saving strategy.