



Investment Insights

Kevin Kennedy

Maximize Your Retirement Accounts

As we approach the tax-filing deadline for 2003, many of you will consider putting money into an Individual Retirement Account to lower your tax bill or supplement your retirement savings. Here are a few tips for maximizing your retirement accounts so you reach your retirement goals.

Max Out Your 401(k)

If you are eligible for a retirement plan at work (i.e. 401(k), 403(b), SIMPLE IRA), sock as much money as possible into that account before considering any other retirement savings accounts. Chances are, your company-sponsored plan will be the most effective and, possibly, only way for you to save money on a pre-tax basis. You can defer the lesser of 100% of your compensation or \$13,000 in 2004 (plus an additional \$3000 “catch-up contribution if you are over 50). Company-sponsored retirement accounts also can give you certain economies of scale, such as access to a wider array of investment vehicles and lower fees, when compared to individual retirement accounts. It is important to remember that money you contribute to a retirement plan at work is your money, and you will usually have full control over how it gets invested. If you leave the company, you can roll your contributions to your new employer’s plan or to an individual retirement account. Before you consider contributing to an IRA or ROTH, take full advantage of this pre-tax savings vehicle.

Set Up Your Own Company Plan or SEP-IRA

If you own your company, you should establish a retirement plan for you and your employees so you can take advantage of the ability to save money before paying taxes. There are a variety of retirement plans available: check with an investment professional or your tax advisor to find out what might be best for you. If you are self-employed and have no employees, there are simple and inexpensive plans available that may allow you to defer as much as \$40,000 in income towards your retirement. If your situation is more complex, there are ways to structure retirement plans to suit many different goals.

Clean Up Your Old Accounts

Often, investors will have multiple IRA or ROTH IRA accounts at various banks and brokerages. This may be a result of shopping around for the best interest rates, or just forming new relationships with financial institutions. Many companies charge fees for

maintaining an IRA, particularly if the IRA does not have a certain minimum value, so by having an assortment of IRA accounts, you may be incurring more fees than is necessary. Find a brokerage that will offer you a variety of investment options, and move your IRAs into one IRA account with that broker. The broker can provide you with the rollover paperwork to move all of your IRAs easily and without any tax consequences. You can then manage the account more effectively and with lower costs.

On a similar note, roll over your old retirement accounts held at your previous employers. If you no longer work for a company, yet you still have money in their retirement plan, roll it to your new employer's plan or into an IRA account. As you have changes in your life (new address, changing beneficiaries, reallocating your investments) it is much easier to make these changes if the account is directly under your control. Make sure you roll the account directly into your new 401(k) or an IRA account to avoid any tax consequences.

Set Up A ROTH IRA

If you've maxed out all of the pre-tax savings opportunities available to you, and you still want to save more towards retirement, consider contributing to a ROTH IRA. Although you will not get a tax deduction for the contribution, your money will grow tax-deferred, and if it's taken out after age 59 ½, it comes out tax-free. If you are eligible, you can put as much as \$3000 into a ROTH (plus an additional \$500 "catch-up" contribution if you are over 50). As long as your adjusted gross income (AGI) is less than \$95,000 as a single filer, or \$150,000 as a joint filer, you are eligible to contribute to a ROTH. You can make contributions for 2003 any time up until your tax-filing deadline (usually April 15th).

Reaching your retirement goals takes work and discipline. Using the tips outlined above might make it easier and simpler to make your dreams a reality.

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