WORKABLE WEALTH

Your Money. Your Plan. Your Future.

Retirement Accounts You Should Leverage

Your chances of winning the lottery are 1 in 175 million. The status of social security when you retire is questionable altogether. If you want to head into your retirement years with financial peace of mind, then you're going to have to forge the path yourself. Your best place to start is with one or more of the below retirement accounts.

Traditional Individual Retirement Account (IRA): An IRA allows you to contribute pretax income (up to a certain threshold) to an investment account, which can grow tax-deferred, meaning you pay no taxes on principal (contributions) and earnings until funds are withdrawn from the account. For 2015, tax-deductible contributions may be made up to $5,500 to an IRA account. Penalty free withdrawals from your IRA can begin at age 59 1/2 and become mandatory at age 70 1/2. Translation: You're saving money on your taxes at today's rates, but you'll be paying a future (possibly higher) rate upon withdrawal.

Roth Individual Retirement Account (Roth IRA): A Roth IRA is similar to the above Traditional IRA except that contributions are made with *after-tax* income and therefore are not tax deductible. For 2015, non-tax deductible contributions may be made up to $5,500. Contribution limits phase out above certain thresholds. There is no mandatory age for withdrawal and there are no taxes due on principal or earnings upon withdrawal from the Roth IRA. Translation: You're paying taxes upfront at today's rates, instead of paying the (possibly higher) rates in place when you begin withdrawals.

401(k): A retirement account sometimes offered through an employer. The 401(k) can come with a Traditional or a Roth option depending on your employer offerings. For 2015, tax-deductible (for a Traditional) or after-tax (for a Roth) contributions can be made up to $18,000. Contributions are deducted automatically from your paycheck and for the Traditional option, funds will grow tax-deferred until withdrawal. For the Roth option, there will be no taxes on principal or earnings at withdrawal, unless you recevie a company match on the Roth contribution. Then, the funds that result from the match and associated growth will be subject to regular income tax when distributed at retirement.

403(b): A 403(b) is similar to a 401(k) except this account will apply to employees public education organizations and some nonprofits.

Note: For the accounts below, you have to have earned income in order to contribute. Your IRA and Roth IRAs will be self-managed at a custodian of your choosing while your 401(k) is an employer sponsored retirement plan.

Thrift Savings Plan (TSP): A TSP is similar to a 401(k) except this account will apply to government employees.

457 plan: A 457 plan operates similarity to a 401(k) and is availabe to state and local public employees, but can also be offered by certain nonprofit organizations. You can opt to divert part of your salary into the plan, and the money is automatically deducted from your paycheck before taxes are taken out. The money grows tax-deferred until it's withdrawn. The key difference is that unlike with a 401(k) plan, there is no 10% penalty for withdrawal before the age of 59½ (although the withdrawal is subject to ordinerary income taxation).

If the 457 plan is the only one your company offers, the limits are the same as with a 401(k) - a maximum of $18,000 in 2015. However, if your employer also offers a 401(k) or 403(b) plan, you can contribute to *both* the 457 and the other plan. Moreover, you can invest up to the maximum *in each account*. In 2015, the limits are $18,000 in each type of account, plus catch-up contributions - so you could make a total retirement contribution of as much as $36,000.

Retirement Plans for Entrepreneurs

The Solo 401(k): A Solo 401(k) is a traditional 401(k) that covers a business owner with no employees or that person and his or her spouse. A business owner can make elective deferrals up to 100% of earned income up to an annual maximum contribution of $18,000 in 2015 & 2016 and employer non-elective contributions of 25% of compensation, with total contributions not to exceed $53,000 for 2015 & 2016.

With a Solo 401(k), you can shelter more at a lower income level than with a SEP IRA. In addition, if needed (although not recommended), you have the option to borrow from your balance (up to a limit). There's also the ability to take advantage of the Roth option through employee deferrals. *However,* if you're working a day job while starting your business on the side – this account may not be your best bet if you're already stocking away into a 401(k) plan. Once you have over $250,000 in the plan, you'll need to file an annual Form 5500, so beware that there is some paperwork involved. Be sure to check on the fees involved with set up at your custodian.

Simplified Employee Pension (SEP) IRA: A SEP IRA is a retirement account that allows for a contribution up to 25% of each employee's pay (and 25% of your net self-employment income). Annual contributions are limited to the smaller of $53,000 or 25% of compensation for 2015 and 2016.

These accounts allow for a lot of flexibility as there is no requirement that you need to contribute each year, which allows you to evaluate on an annual basis as to whether or not the funds are available and how much you can reduce your taxes by. However, if you're in a business that is growing and taking on employees, this plan can get expensive as it must include all eligible employees over the age of 21, who have worked for the employer in 3 of the last 5 years and received at least $550 in compensation throughout the year. Also, there's no Roth option for a SEP IRA.

Savings Incentive Match Plan for Employees (SIMPLE) IRA: A SIMPLE IRA is a retirement plan designed for and available to any small business with 100 or fewer employees The employer is required to contribute each year either a matching contribution of 3% of compensation or 2% non-elective contribution for each eligible employee (meaning the employer contributes even if the employee doesn't). An employee can contribute $12,500 in 2015 & 2016.

SIMPLE IRAs are easy to set up, however if withdrawals are made from the plan within the first 2 years, the 10% penalty is increased to 25%.

Remember, when it comes to putting away money for retirement, just get started! If you have an employer match, take advantage of the free money offered first and then to review your taxes to make the decision on where the rest of your retirement savings should go. Your retirement funds will likely consist of a mix-and-match with a few different account types, so don't feel like you need to stick with just one account. If you've maxed out your retirement plan options for the year, move over to saving in a personal, after-tax account to build up your nest egg even more.