

# IRA / Retirement Plan Accounts

Retirement plans are tax advantaged savings plans that have been created by the US government to encourage investors to save for their retirement. Some investments selected inside these accounts may include mutual funds, stocks, bonds, annuities and CD's.

## Retirement Plan Account Types:

There are many retirement plans or IRAs for individuals such as Solo 401k and Keogh's (Money Purchase / Profit Sharing) Plans, SEP, Traditional and Roth IRAs.

### ▪ Solo 401k

Also can be referred to as "Individual 401k", "Single (k)", "Personal 401k" or "SBO Plan". The Solo 401k plan is designed specifically to benefit owner only businesses. This retirement plan allows maximization of contributions and valuable tax deductions compared to other types of small business plans.

### ▪ SEP IRA

Stands for "Simplified Employer Pension Plan", This retirement plan is ideally suited for small business owners and self employed individuals such as independent contractors. The SEP IRA plan allows a much larger contribution than a Traditional or Roth IRA.

### ▪ Keogh Plan

Also referred to as "Money Purchase" and "Profit Sharing". The Keogh retirement plan is designed for owners of un-incorporated small businesses. In other words you must be a partnership, sole proprietorship or LLC.

### ▪ Traditional IRA

Personal savings plan that gives tax advantages for setting aside money for retirement. A Traditional IRA allows assets to grow tax deferred. You will not pay taxes on the dividends and investment earnings until after you withdraw the assets.

### ▪ Roth IRA

Personal savings plan that gives tax advantages for setting aside money for retirement. A Roth IRA offers unique tax advantages compared to other retirement plans since contributions are not tax deductible but withdrawals after age 59 1/2 are tax free.

### ▪ IRA Transfers

Individuals that currently have a retirement plan (such as a previous Rollover, SEP, Traditional or Roth), sometimes may choose to transfer their existing account/s. There are many reasons to consider a transfer.

## Retirement Plan Contributions

In general, annual contributions into these retirement accounts are tax deductible and interest earned grows without being taxed until the money is withdrawn by the individual at age 59 1/2 or older. However, with a Roth IRA, the contributions are not tax deductible but the interest grows tax free and can be withdrawn tax free after the individual is age 59 1/2 or older.

# Individual / Solo 401k

(for owner only, small businesses and the self employed)

## What is a Solo 401k?

The Solo 401k retirement plan is often referred to by many names such as: "Individual 401k", "Single(k)", "Personal(k)", "Solo(k)" and "uni-(k)". This plan comes from the tremendously popular [401k](#) which has become the retirement plan of choice for many employers and employees.

What's unique about the Solo 401k is that it is designed specifically to benefit owner only small businesses and independent contractors.

The Solo k plan takes advantage of the existing laws found under section 401(k) of the Internal Revenue Code as well as the new laws created by the Economic Growth and Tax Relief Reconciliation Act of 2001(EGTRRA) This creates a unique retirement plan for owner-only businesses.

For some small business owners the new Solo k allows them to maximize their contributions and their valuable tax deductions compared to other traditional types of small business retirement plans such as the Traditional IRA, Roth IRA, SEP IRA, or Keogh (Money Purchase/Profit Sharing Plans). If you are a small business owner that would like to make a retirement plan contribution up to \$40,000 a year but were previously limited by the rules of other retirement plans this plan may be ideally suited for you.

## Who is the solo 401k best suited for?

Any business that employs owners and their immediate family such as their spouses and their children. Sole proprietorships, partnerships and corporations (including both subchapter S and C corporations) would qualify for a Solo 401k.

A business that employs the owner and non-immediate family members as part-time employees may be able to exclude them from plan participation. Generally, under federal law you are permitted to exclude the following types of employees:

- Employees under age 21.
- Employees with less than one year of service.
- Employees who work less than 1000 hours per year.
- Certain union employees, and ...
- Certain nonresident alien employees.

## 5 Benefits of the Solo 401k

### 1. *Higher Contribution Limits*

The total contribution limit for a Solo 401k plan for 2002 is the lesser of 100 percent of compensation or \$40,000 (\$41,000 for individuals age 50 or older. Compared to other retirement plans you may be able to make a greater contribution based on your same income, therefore maximizing your retirement contribution and tax deduction.

### 2. *Access to Tax-Free Loans*

Similar to Traditional 401k plans, you can take tax-free, penalty-free loans from your Solo k plan. Loans are not permitted with Traditional or Roth IRAs, SEP IRAs, or Keogh (Money

Purchase/Profit Sharing Plans)

3. *Cost-Effective Administration*

The Solo 401k plan is easy and inexpensive to maintain. Administration is minimal, and complex discrimination tests are not required. Fees for administration can range from \$30 annually to \$200 annually depending on the amount of administrative services provided by the Solo k provider.

4. *Contribution Flexibility*

Each year the funding of the plan is completely discretionary. You can increase or decrease your contributions according to profitability.

5. *Asset Consolidation*

An important feature of the Solo 401k plan is the opportunity to consolidate retirement assets into one account. This includes IRAs, SEP Plans, 401k Plans, Money Purchase Plans, SIMPLE IRAs, Profit Sharing Plans, Defined Benefit Plans, 403b Plans and Rollover IRAs.

## SEP IRA

(for self employed individuals and small business owners)

### What is a SEP IRA?

SEP IRA (Simplified Employer Pension Plans) are retirement plans that are ideal for small business owners and self employed individuals such as independent contractors (IRS Schedule C). SEP IRA plans allow a much larger contribution (up to \$40,000 annually in 2004) than a Traditional or Roth IRA with a comparable amount of paper work.

### SEP IRA for a self employed individual with no employees.

Contributions of up to 25% of earned or net income up to a maximum of \$40,000 annually can be made into a SEP. A contribution to a SEP IRA is a tax deductible expense.

Self employed individuals with less than \$150,000 of net income who would like to contribute the full \$40,000 but are limited by the contribution rules of the SEP may want to consider a [Solo 401k](#) (Individual 401k) to maximize their tax deductions.

### SEP IRA for a small business owner with employees.

With a SEP, contributions are made by the employer (employees do not contribute). All eligible employees have their own individual SEP accounts and annual contributions are made by the employer to the employer's SEP as well as to any eligible employees' SEP accounts. The employer can elect to contribute between 0% to 25% of compensation and the percentage of contribution can vary annually at the employer's discretion. The employer and all eligible employees must receive the same fixed percentage. The annual contribution made by the employer is tax deductible.

### Who is considered to be an eligible employee?

Employers must make contributions to employees if they meet the following 3 requirements:

1. 21+ years old
2. Have at least 3 years of service in last 5 years
3. Have earned at least \$450 in compensation from the employer for the year.

Employers who would like to sponsor a retirement plan for their employees but are financially unable to make contributions on their behalf may want to consider a [401k plan](#). With a 401k, employers are not required to contribute and contributions can be made solely by employees.

## Keogh Plan

(for self employed individuals, partnerships, LLCs and sole proprietorships)

### What is a Keogh Plan?

A Keogh is a retirement plan for a self employed professional or the owner of an un-incorporated small business and its employees. In other words you must be a sole proprietorship, a partnership or a limited liability company (LLC).

In a Keogh the employer makes 100% of the contributions. Dividends and investment earnings in a Keogh grow tax-deferred until withdrawn. Full-time employees must be included in a Keogh plan if they have worked for the company more than three years. You cannot withdraw money from your Keogh without a potential tax penalty before you are age 59 1/2 or older and are no longer employed at the company.

There are 2 types of Keogh retirement plans. A *Defined Benefit Keogh* and a *Defined Contribution Keogh*.

### Defined Benefit Keogh Plan

A defined benefit Keogh plan is more complex and requires the services of a pension specialist. These are similar to Traditional pension plans that were common years ago. In this plan, 100% of the contributions are made by the employer to themselves and to eligible employees. Within certain limits, the employer can choose the specific amount received from the retirement fund at retirement. To reach this amount at retirement, a specific contribution is made by the employer into the Keogh account based on a complex actuarial formula. Some of the factors involved in the actuarial formula are age and life expectancy, estimated retirement benefit amount and years until retirement. These and other factors determine the amount that can be contributed each year into a Keogh.

A defined benefit plan rewards older participants more, whether they are employees or owners, because larger contributions are required by the employer to fund a specified future benefit since they have fewer years until retirement.

### How much paperwork is there for a Defined Benefit Keogh Plan?

A defined benefit Keogh is more complex and expensive administratively and requires the services of an actuary or pension specialist. This may be an ideal plan for older owners that want to maximize their retirement contributions beyond the \$40,000 maximum allowed by a defined contribution plan.

## **Defined Contribution Keogh Plan**

A defined contribution Keogh plan is much less complex and inexpensive administratively (approximately \$30-50 per person per year). In this plan, 100% of the contributions are made by the employer to themselves and to eligible employees. The employer and eligible employees must receive the same contribution percentage based on their income into their individual accounts. In a defined contribution Keogh plan, the value of your retirement plan at retirement depends on the amount of your annual contributions and the growth rate of your investments. Common investments inside this type of Keogh are stocks, bonds and mutual funds. For 2004 and thereafter, the maximum contribution will increase to the lesser of \$41,000 or 100 percent of net income. Self employed individuals or business owners with no employees or with only a working spouse at the company may also want to research a [Solo401k](#) (Individual 401k).

There are two types of defined contribution Keogh plans; money purchase and profit sharing plans. Prior to the Economic Growth and Tax Relief Reconciliation Act of 2001 there may of been a benefit to using one of these plans over another or even having both as a paired plan. Given the new tax act in 2001 a money purchase plan is no longer necessary. Profit sharing plans allow the same maximum contribution percentage and allows the employer greater flexibility. In 2004 the maximum allowed contribution in a profit sharing plan is the lesser of \$41,000 or 100 percent of net income.

## **How much paperwork is there for a Defined Contribution Keogh Plan?**

There is more administration and paperwork than a SEP-IRA, Traditional or Roth IRA including possible yearly IRS Form 5500 filings.

## **Who can have a Keogh Plan?**

A Keogh plan is designed for the self-employed professional or owner of an unincorporated small business and its employees. In other words you must be a sole proprietorship, a partnership, or a limited liability company (LLC).

## **How do you determine net or earned income?**

The amount of the contribution you can make to your Keogh plan is determined by the amount of your "net income" or "earned income" for the year. Earned income is defined as your gross income from a trade or business, minus any allowable deductions. Income received by a passive partner is considered to be investment income rather than earned income and would not be eligible for either Keogh plan.

## **Can I contribute if I have more than one business?**

Yes, if an owner-employee has more than one business but only one business has a Keogh plan. Contributions and deductions are based only on the earned income from the business that has the plan.

## **When can I set up my Keogh for it to be tax deductible?**

You must set up the Keogh by the end of the calendar year in order for your contributions to be deductible for that tax year.

# Traditional IRA

(for individual investors)

## What is a Traditional IRA?

A Traditional IRA (Individual Retirement Account) is a personal savings plan that gives you tax advantages for setting aside money for retirement. In 2004, qualified individuals under age 50 can contribute up to \$3,000 per year and up to \$3500 for those older than 50. Some of the investments that may be selected inside a Traditional IRA are mutual funds, annuities, stocks, bonds and CD's.

Individuals can also transfer or "roll over" their employer sponsored retirement plans (401k, 403b, 457, or pension) into a rollover IRA. This type of account transaction is often referred to as a "[401k Rollover](#)". There is no dollar limit on the amount that can be rolled over from an employer sponsored retirement plan into a new IRA and there are several advantages of doing so.

## What are the benefits of a Traditional IRA?

For many investors, contributions to a Traditional IRA are tax-deductible from federal income taxes and also tax-deductible from state income taxes in most states.

A Traditional IRA allows your assets to grow tax-deferred, meaning you won't pay taxes on the dividends and investment earnings until you withdraw the assets. Tax deferred earnings growth can have a powerful effect over time.

## Who can contribute to a Traditional IRA?

Business owners, self employed, independent contractors, employees who do not have retirement plans through their employer and non-working spouses. Investors who participate in an employer sponsor retirement plan such as a 401k can also contribute to a Traditional IRA. However the contribution may not be tax deductible depending on your income.

## What are the disadvantages of a Traditional IRA?

There is a maximum of \$3000 contribution. Business owners, self employed individuals and independent contractors who would like to make a contribution of greater than \$3000 may want to research a [SEP IRA](#) or a [Solo 401k](#) (Individual 401k).

## When can I withdraw assets from my Traditional IRA?

Money can be withdrawn from a Traditional IRA after age 59 1/2 although you will pay regular income taxes on your distributions. If you should withdraw money prior to age 59 1/2 you will incur an additional 10% penalty. For most investors saving for retirement in a Traditional IRA is advantageous. During your higher tax bracket working years you are able to get a tax deduction on your annual

contributions, and earn many years of tax deferred growth on your dividends and investment earnings. Once retired and usually in a lower tax bracket you can withdraw the money as needed from your Traditional IRA.

## Can I withdraw from my Traditional IRA and avoid the 10% penalty?

There are several exceptions when you could withdraw money prior to age 59 ½ rule and not incur a 10% penalty, and they are as follows:

- You have non-reimbursed medical expenses that are more than 7.5% of your adjusted gross income (but the distributions can't be more than the cost of your medical insurance)
- You are disabled.
- You are the beneficiary of a deceased IRA owner.
- You are receiving substantially equal distributions according to IRS rule 72t.
- The distributions are for qualified higher educational expenses.
- The distributions are used to buy or build a first home (10,000 maximum distribution)

## When must I take distributions from my Traditional IRA?

Minimum distributions are required by the IRS according to a specific formula once you reach age 70 ½.

Note: Individuals may not be eligible to contribute to a Traditional IRA depending on an individual's income and depending on whether he or she participates in an employer sponsored retirement plan such as a 401k.

## Roth IRA

(for individual investors)

### What is a Roth IRA?

A Roth IRA (Individual Retirement Account) is a personal savings plan that gives you tax advantages for setting aside money for retirement. In 2004, qualified individuals under age 50 can contribute up to \$3,000 per year and up to \$3500 for those older than 50.

Roth IRAs offer some unique tax advantages compared to other retirement plans since contributions are not tax deductible but withdrawals after age 59 1/2 are tax free. Some of the investments that may be selected inside a Roth IRA are mutual funds, stocks, bonds and CD's.

Individuals can also transfer or "rollover" their employer sponsored retirement plans (401k, 403b, 457, or pension) into a rollover IRA. Often referred to as a "[401k Rollover](#)", a rollover IRA can later be converted into a Roth IRA provided they meet certain income limitations. When an employer sponsored retirement plan is rolled over to an IRA there is no tax liability. However if the rollover is converted to a Roth IRA it will be taxable.

For some investors a conversion to a Roth IRA may make sense, depending on a number of factors such as your total investment assets, tax bracket while in retirement and estate planning needs.

## **5 Major benefits of a Roth IRA?**

1. Contributions to a Roth IRA are not tax deductible. However, there are other advantages and tax benefits.
2. The unique feature of a Roth IRA is dividends and investment earnings grow tax-free within a Roth IRA. This means you won't have to pay federal income taxes or state taxes in most states, if you make withdrawals after age 59 1/2. This is unique compared to other retirement accounts since money can be withdrawn tax free.
3. Contributions can be withdrawn tax-free and without penalty at any time. This does not apply to the dividends and investment earnings.
4. Withdrawals are not required to start when you reach age 70 1/2. The IRS requires that investors take distributions beginning at age 70 1/2 for other retirement plans. For some investors who want to transfer assets to family members or investors with estate planning issues this can be a great retirement option.
5. Dividends and investment earnings may be withdrawn tax and penalty free after the Roth IRA account has been opened at least five years provided the withdrawal meets one of the following conditions: (1) the owner is 59 1/2 or older (2) the owner is disabled (3) death (4) first time home purchase up to a \$10,000 (5) qualified higher-education expenses (6) qualified medical expenses exceeding 7.5% of income (7) payment of health insurance premiums while unemployed.

## **When can I make withdrawals from my Roth IRA?**

Contributions can be withdrawn at any time. Earnings may be withdrawn tax free provided the account has been opened at least five years and one of the above listed qualifying circumstances has been met.

## **Who should have a Roth IRA?**

Anyone who would like to maximize their retirement contributions. Investors with income above a certain threshold may not be permitted to contribute to a Roth IRA.

## **What are the disadvantages of a Roth IRA?**

Relatively low contribution limit of \$3000 or \$3500 if you are age 50 or over. Contributions are not tax deductible.

## **When must I take distributions from my Roth IRA?**

There are no IRS requirements on when you must start taking withdrawals from your Roth IRA.

# IRA Transfers

## (transferring your current IRA or retirement plan account/s)

Individuals that currently have a retirement plan such as a previous IRA Rollover, SEP, Traditional or Roth IRA sometimes may choose to transfer or "rollover" their existing account or accounts into a new IRA. *If an IRA transfer is done properly from one financial institution to another there is no tax liability.* There are several reasons for considering a transfer. Some questions to ask yourself are:

1. Am I receiving guidance and advice by a financial professional from the institution that holds my retirement account/s?
2. Am I pleased by the performance of my IRA portfolio?
3. Would I like to increase the number of investment options available to me?
4. Would I like to consolidate my various retirement plans or IRAs to improve the organization of my investments and make it easier to monitor my portfolio?

## Transferring your IRA or retirement plan account/s with BCM

If you elect to transfer your IRA or retirement account/s with us, an investment professional would help you choose a portfolio that is based on your specific investment objectives. Since we have no proprietary products, our advice is objective. There is no incentive to steer you into unsuitable investments.

## Establishing your investment objectives for new IRA account

The account/s transfer process would begin with a series of questions in order to gain an in depth understanding of your situation.

One of the most important questions will be to determine your investment objectives for your new IRA. For example, if you are retiring or nearing retirement you probably are primarily concerned with preserving and protecting the value of your IRA or retirement account/s and receiving monthly income. Conversely, if you have many years before retirement you probably are more concerned with selecting investments that can provide you with long term growth.

## Designing your customized IRA portfolio

Your answers to following list of questions will have a significant impact on the portfolio that is recommended for you.

- What is your tolerance for investment risk?
- What is your time horizon before retirement?
- What type of investment experience have you had?

When the answers to these and other questions have been answered and there is a complete understanding of your current financial situation, the process of designing your portfolio will begin. Your new portfolio will be created by selecting from stocks, bonds, money managers and over 10,000 mutual funds.

There are very specific criteria and a stringent selection process that is used to determine each investment that is selected for a client's portfolio. In addition, there are a number of sophisticated diversification strategies that will be implemented in your portfolio to reduce your risk and volatility.