

# Retirement Plans

Presented by

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# IRA

## Types:

**Traditional (deductible)**

**Roth (tax-free)**

**Nondeductible**

## Contribution levels:

	<u>2005</u>	<u>2006</u>
	\$4,000	\$4,000
Catch-up	\$500	\$1,000

Contributions must be made by April 15th

## Taxable compensation:

Wages and salary

Self-employed income

## Not compensation:

Rental income

Pensions

S Corp distributions

Social Security benefits

## Traditional

Limited if taxpayer is a participant in an active plan

No minimum age – contributions not allowed at 70 ½

## Deduction limited (2005):

Single – AGI of \$50,000-\$60,000

Joint – AGI of \$70,000-\$80,000

Non-working spouse – AGI of \$150,000-\$160,000

Contributions - must be made in form of cash (or check)

## Investments:

Stocks, bonds, mutual funds

## Prohibited:

Collectibles

Life insurance

## Distributions

Minimum at age 70 ½

If before age 59 ½ - 10% penalty

No penalty

Beneficiaries

Medical

Disability

## **Roth**

Not deductible

No age limitations (contribute after age 70 ½)

Contributions limited:

Single – AGI of \$95,000-\$110,000

Joint – AGI of \$150,000-\$160,000

Conversion from Traditional (not other plans)

AGI limited to \$100,000

No 10% penalty

Need cash to pay taxes

Withdrawals – tax and penalty:

Contributions – none

Conversions – none if >5 years or > 59 ½

Earnings – none if > 5 years and > 59 ½

Clock starts at first contribution

## **Nondeductible**

AGI too high for traditional or Roth

Must file form 8606

Same basic rules as Traditional

Distributions

Contributions - tax-free

Earnings - taxable

Must be pro rata – contributions and earnings

## **SIMPLE (Savings Incentive Match Plans For Employees)**

Participants are eligible if they received \$5,000 in 2 preceding years or will receive \$5,000 in current year.

2006 Contribution levels - \$10,000 + \$2,000 catch-up

Employer matching (equal to the amount of the employee's contribution) required as follows:

Either up to 3% of participating employees' compensation,

Or, 2% of compensation for ALL employees earning \$5,000.

Can be as little as 1% of employees' compensation no more than 2 out the previous 5 years.

Employer contributions are due by the due date of the employer's return including extensions.

Must be set up by October 1st

Contributions are nonforfeitable and vest immediately.

Distributions (including rollovers) within the first 2 years of participation, incur a 25% penalty.

This is in lieu of the 10% penalty.

100 employee limitation

Must complete 5304-SIMPLE or 5305-SIMPLE.

## **SEP (Simplified Employee Pension Plan)**

Employer sponsored

Sole proprietorship

C or S Corp

Set-up and contributions - due date of tax return including extensions

Contribution levels:

	<u>2005</u>	<u>2006</u>
Lesser of	\$42,000	\$44,000
Or	25% of compensation (20% self-employed)	
Catch-up	None	None

Must contribute for qualified employees

Must complete Form 5305-SEP

## **Individual 401(k)**

Combination of profit-sharing and 401(k)

No full-time employees

Can have employees < 1,000 hours/year

Business owner definition includes spouse

2006 Contribution levels – total allowed \$49,000:

Up to 100% of the first \$15,000 + catch-up \$5,000  
and 25% of compensation (20% self-employed)

Employer sponsored

Sole proprietorship

C or S Corp

Must be set up by December 31

Business owner contributions by December 31

Employer contributions - due date of return + extensions

Rollovers from other plans acceptable

Must file Form 5500 if plan assets > \$100,000

## Resources:

[www.irs.gov](http://www.irs.gov):

*FAQs regarding SIMPLE IRA Plans*

*Individual Retirement Arrangement (IRA) Resource Guide for Small Business Owners and Individuals CD-ROM*

*Publication 560 – Retirement Plans for Small Business (SEP, SIMPLE, and Qualified plans).*

*Publication 590 – Individual Retirement Arrangements*

[www.401khelpcenter.com](http://www.401khelpcenter.com) – information on all types of retirement plans

[www.irahelp.com](http://www.irahelp.com) – Ed Slott's IRA Advisor

[www.rothira.com](http://www.rothira.com) – news and articles

[www.rivertonfinancial.com](http://www.rivertonfinancial.com) - calculators