Common Sense IRA and 401(k) Strategies

5/6/2015 AZ Republic by Dr. Harold Wong

For many, especially in the Baby Boomer generation, most of their financial assets are in their IRA or 401(k). Here are some strategies that can make a big difference for your retirement:

1. **Maximize your annual contribution to your IRA and get the full employer match to your 401(k).** Suppose you earn $60,000 and the employer will match 50 percent of your 401(k) contribution up to 5 percent of your income ($3,000). The employer match is then $1,500 and you have a total of $4,500 saved. If you contribute $5,500, the maximum IRA contribution in 2015 (and it's $6,500 for those age 50 or over), you will have saved $10,000. This $10,000 contribution may save you at least 20 percent income tax, or another $2,000. If you do this for 30 years, such as age 35-65, and earn an average 4 percent annual return, you will have $699,940 at age 65.

2. **Seriously consider a Roth IRA instead of a traditional IRA.** In our example above, if you contribute $5,500 to a Roth IRA, you will not be able to deduct the $5,500 and will not save $1,100 of tax. However, this means that any earnings for the rest of your life on a Roth IRA are non-taxable. If you started saving $5,500 in a Roth IRA and did this for 30 years, with an average 4 percent return, you would have $320,806 at age 65. Of this $165,000 would be your total contributions and $155,806 would be tax-free earnings. I know that everyone wants to minimize their taxes every year, but you won't even notice the $1,100 of annual tax savings that you don't get. The average person who goes to Starbucks spends at least $6 a day, 5 days a week, which totals $1,560. Just bring a thermos of coffee or tea to work. When you retire, it's a relief to know that any income from a Roth IRA is tax-free. Warning: if you have high income, you may be restricted from contributing to a Roth IRA.

3. **Rollover your 401(k) to an independent IRA as soon as your employer allows.** Many studies have shown that the same mutual fund held in a 401(k) has higher fees than if that investment was held in an independent IRA. Wall Street knows that money is trapped for years in a 401(k) and employees are restricted to the investment choices allowed in their 401(k) plan. Suppose you could reduce fees by only 1 percent and could earn only 1 percent more if you had more choices in your independent IRA. If you rolled out $500,000 from your 401(k) at age 60, and the net return (after fees) was 5 percent instead of 3 percent, you would have $1,039,464 instead of $778,983 by age 75 or $260,481 more.

Most employees do not realize that most employers allow you to do an "in-service" distribution of your 401(k) funds to an IRA of your choice. Normally, one has to be at least age 59.5. However, if you are laid off, quit, or are fired, you are now free to rollover your 401(k) to an IRA at any age. If the "in-service" distribution provision is not in your 401(k) plan; complain to your human resource department or the president of your company. The company can ask the 401(k) provider to add the "in-service" distribution provision.

Free Seminars: ***"Common Sense Financial Strategies"*** will be on Wednesday 5/13/2015 from 6:30-8:30 pm, preceded by a light supper from 6-6:30 pm. ***"Secrets of Roth and Multi-Generational IRA's"*** will be held on Saturday, 5/16/2015 from 10-12 noon, followed by a light lunch from 12-1 pm. Both seminars will be held at Keller Williams University, 2077 E. Warner Road, Tempe, AZ 85284. **Please RSVP at (800) 955-1408**.

For a private consultation, contact Dr. Wong at (480) 706-0177, haroldwong1@yahoo.com, or www.drharoldwong.com. For his archived research or future seminars, click on www.DrWongInvestorGuide.com.