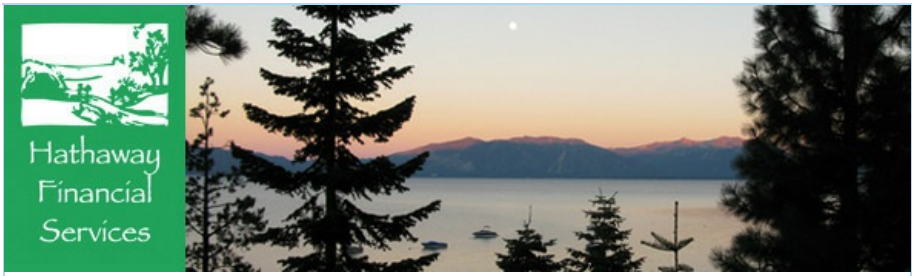

Retirement Plan Contributions 2013

There is a lot of concern about retirement these days, and rightly so, considering we are living longer and having to rely more on our ability to save pre-retirement if we want to enjoy our golden years. Planning for retirement is something you can never start too early, and Congress has set up a variety of tax-advantaged retirement plans to encourage us all to save for this important goal.

For 2013, the Internal Revenue Service has enacted cost-of-living increases in most retirement plans. The allowable contribution amounts for the most utilized retirement plans are as follows for 2013:

• Elective deferrals for 401(k), 403(b), most 457, and TSP plans are $17,500
• Catch-up deferrals for those over 50 for 401(k), 403(b), most 457, and TSP plans are $5,500
• Defined contribution plan limits are $51,000
• IRAs and Roth IRAs, for those under 50, are $5,500
• IRAs and Roth IRAs, for those 50 and older, are $6,500
• SIMPLE IRAplans deferral amount is $12,000, with catch-up contributions of $2,500 for those age 50 and older

With all the plans available it can be confusing to choose which plan will work best for your particular situation. If your employer sponsors a plan through your workplace, that will probably be the best place to start. This is especially true if your employer offers to match a percentage of your contributions. Employer sponsored plans are: 401(k), 403(b), 457, and SIMPLE IRAplans. Each employer sponsored plan differs, so you will want to refer to the plan document for features specific to your plan.

If your employer does not provide a plan, or they do but you wish to contribute to an outside plan as well, or you are self-employed, there are still plans available to allow you to make tax-deferred contributions on an annual basis. Traditional IRAs and Roth IRAs are available to all, while SIMPLE IRAs and SEP IRAs are available to the self-employed. If you decide you want to start, or are currently contributing to these plans, there are certain income limitations you must be aware of, especially if you are an active participant in your employer-sponsored plan.

Not all retirement plans are created equal, and this is especially true when it comes to tax issues related to retirement plan contributions and distributions. For most plans, contributions made to retirement plans are deductible from your taxes in the year the contribution is made. This is true for contributions made to 401(k), 403(b), 457, TSP, and IRAplans, but not for contributions made to Roth IRAplans. Roth IRAcontributions are not tax-deductible, and do not reduce taxable income in the year in which they are made. The tax bonus for Roth IRAs occurs when you receive distributions, which will be completely tax-free if the distribution is qualified. For those that are young, or those who are concerned about higher tax rates in retirement, a Roth IRAcan be a nice addition to your retirement portfolio. For your 401(k), 403(b), 457, TSP, and all other IRAplans, most distributions are taxed at your ordinary income tax rates in the year of distribution. As you can see, deciding on an up front tax deduction may not be the best option for every tax-payer. *(Please seek the advice of a tax professional for your specific tax situation.)*

What is the best way to fund your retirement plan? If you have an employer-sponsored plan, you simply fill out a salary reduction form, and your employer will automatically deduct your contribution from your salary every month. If you are opening your own IRA, it is equally easy to set up an automatic transfer between your bank and your IRAaccount to have the funds automatically transferred to your account on a monthly basis.

Once the contributions are in the account, what should you do with them? Invest them in a well diversified portfolio of stocks and bonds. Keeping them in cash long-term will prevent you from taking full advantage of the tax-deferred status of these accounts.

Even though there are a number of decisions to make regarding retirement planning, don't let confusion about the options stop you from getting started. Getting the accounts opened and starting a regular contribution schedule is the most important part of getting your retirement goals fully funded.

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