

Reset Your Monthly Retirement Savings

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Abstract

While December 31st is a day to reflect on the year gone by, January 1st is a time to look forward to 2005. Have you reset your monthly retirement savings to take full advantage of this year's increased tax breaks?

REVIEW

Most working medical and psychological professionals have access to a 401(k) plan or a 403(b) plan at work. Amounts contributed to these plans reduce your taxable earnings and grow tax deferred. This year, you can contribute up to \$14,000, or \$1,166.67 per month, into a 401(k) or 403(b) plan through salary deferrals.

Will you be 50 or older by December 31st? If so, you can contribute an extra \$4,000 into your 401(k) or 403(b) plan this year, for a total of \$18,000. To max out this pre-tax opportunity, instruct your employer to withhold \$1,500.00 each month from your salary.

Many smaller employers offer SIMPLE/IRAs instead. SIMPLE's work just like 401(k) plans, which means it's up to you to fund your account through salary deferrals. For 2005, the maximum contribution into your SIMPLE is \$10,000, or \$833.33 per month. Anyone 50 or older by December 31st can sock away an additional \$2,000 this year, for a total annual contribution of \$12,000, or \$1,000 per month.

Are you self-employed as a consultant to a clinic, or in private practice? Each year, you can contribute up to 20% of your net self-employment income into a SEP IRA. The maximum contribution for 2005 is \$42,000, or \$3,500 per month.

Solo 401(k)'s are an attractive alternative to many sole medical and psychological professionals in private practice with no full time employees (those who work more than 1,000 hours per year) besides a spouse. If you don't have access to a 401(k) or 403(b) plan through another employer, the Solo 401(k) plan makes it easier for you hit the this

year's max of \$42,000. If you're 50 or older, your maximum contribution into a Solo 401(k) jumps to \$46,000, or \$3,833.33 per month.

And don't forget about IRA's. Even if you're covered under a retirement plan at work, you and your spouse can each contribute up to \$4,000, or \$333.33 per month, into a traditional IRA or Roth IRA this year. Anyone 50 or older can contribute an extra \$500, increasing the total allowable contribution to \$4,500, or \$375 per month.

Most people won't be able to max out these tax-advantaged retirement options unless they get on a budget and put away a set amount of money each month. Now's the time to reset your monthly retirement savings for 2005.

2005 MAXIMUM RETIREMENT ACCOUNT CONTRIBUTIONS RETIREMENT SAVINGS OPTION

Under the age
of 50
50 or older by December 31st

401(K) OR 403(B)

\$14,000
(\$1,166.67/month)
\$18,000 (\$1,500.00/month)

SIMPLE IRA

\$10,000
(\$833.33/month)
\$12,000 (\$1,000.00/month)

SEP IRA

\$42,000

Reset Your Monthly Retirement Savings

(\$3,500.00/month)
\$42,000
(\$3,500.00/month)

SOLO 401(K)
\$42,000
(\$3,500.00/month)
\$46,000 or

(\$3,833.33/month)

IRA
\$4,000
(\$333.33/month)
\$4,500 (\$375.00/month)

References

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