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BEST RETIREMENT PLAN OPTIONS

There are plenty of good retirement options out there, but sticking to a single plan won't help you achieve your goals.

By: Michelle Smith - October 9, 2015

There are plenty of good retirement options out there, but sticking to a single plan won't help you achieve your goals. "There's nothing that's a silver bullet," said Jennifer Landon, founder and president of Journey Financial Services. That means a good retirement plan isn't comprised of a single product or asset, but a package of income sources structured to meet your goals. Here are the 10 best options for your retirement plan.

1. Pensions

Pensions are the easiest retirement plans because little is required of you. The employer contributes all the money and the funds are professionally managed. All you have to do is stay on the job long enough to qualify, then retire and collect. But not everyone has this option.

While pension plans are still common for municipal and government workers, they are becoming less and less popular in a corporate environment, said Marc Labadie, vice president of CR Myers & Associates of Southfield, Mich.

And many pension plans have become less generous. Most don't offer a cost-of-living adjustment, so the monthly payment you get when you first retire is the same amount you'll get at 85 or 90 years old. "If you don't save additional funds, you're going to have to deal with the reality that you're purchasing power is greatly diminished and you'll have to accept a lesser lifestyle," Labadie said.

2. Defined Contribution Plans

With defined contribution plans such as a 403b or 401k, you're in control of your future. You choose whether to participate, which plan options suit you, when to change those options and how much to contribute. Many financial advisors consider these the best retirement plans after pensions because most employers who offer them match a certain portion of your contributions. In many cases, it's a dollar-for-dollar match, and that's an immediate 100% return on your money, said Tim Swanson, executive vice president and U.S. head of Citizens Private Bank & Trust.

Your contributions are automatically deducted from your paycheck, so you don't have to make an ongoing effort to invest. But there are contribution limits. In 2015, people under age 50 could contribute up to $18,000. People over 50 could add an additional $6,000 in catch-up contributions. Some employers offer Roth 401k options, which tax the funds you contribute upfront. But most 401ks are traditional, where you pay taxes on your withdrawals.

3. Roth IRAs

A Roth IRA is an individual retirement account funded with taxed dollars. You enjoy the benefits of tax-free growth and tax-free withdrawals. "I typically recommend someone do a 401k employer plan and then do a Roth IRA in addition to that if they're within the income levels," said Swanson. "That way they get a well-balanced plan that allows them to make pre-tax contributions to the employer plan and after-tax contributions to the Roth plan."

Roth IRAs are also highly recommended for young retirement savers, whether or not they have access to employer sponsored plans. When you're decades from retirement, "the ability to pay taxes today at a known rate and have it grow tax-deferred and come out tax-free at an unknown tax rate is wildly advantageous," said Labadie.

A Roth IRA isn't an option that's open to everyone. Eligibility and contribution limits depend on your modified adjusted gross income and tax filing status, but in 2015 people who were eligible could contribute up to $5,500 per year, or up to $6,500 if they were over age 50. With Roth IRAs you don't have to withdraw the money if you don't need it, and you can keep contributing long after you've retired. And if you need the money before age 59 ½, there's no penalty for withdrawing your contributions, though there's a 10% federal penalty for withdrawing earnings.

4. Traditional IRAs

Traditional IRAs have the same annual contribution limits as Roth IRAs, but they are not subject to income restrictions so anyone can contribute. The contributions are tax deductible and you enjoy tax-deferred growth, meaning you don't pay capital gains tax but you have to pay tax on your contributions and earnings when you make withdrawals. Traditional IRAs are subject to required distributions at age 70 ½ and you can't make contributions to the plan after that point.

Still, the traditional IRA is often the better option for people with a shorter time frame to retirement, such as those retiring in five or 10 years. It can be very advantageous for these contributors to get the combined benefit of the upfront tax deductions and tax deferral, Swanson said.

5. SEP IRAs

There are several types of retirement plans for self-employed people and it really comes down to how much you want to spend administering the plan, said Labadie. For most sole proprietors, he recommended the simplified employee pension plan (SEP). "If you're self employed with no employees, there's probably no easier, lower cost, ease-of-administration plan with a huge contribution limit," he said.

In 2015, up to $53,000 in pre-tax contributions are allowed to be put in a SEP IRA. If you have a really good income year, or you don't have a lot of tax deductions, you can shelter a large amount money to cut your tax bill. And in years when you don't do so well, you don't have to contribute anything.

6. Nonqualified Deferred Contribution Plans

If you want to invest in a Roth-like structure, but you're barred by income restrictions or you've maxed out your contributions in other retirement plans, consider a nonqualified deferred compensation plan (NQDC), often referred to as "the rich man's Roth," said Labadie.

It's an option commonly used by upper management and executives who don't benefit from defined contribution plans or IRAs as much as lower income workers, because of the contribution limits. In essence, these plans allow you to defer a portion of your income until some time in the future. You don't have to pay income tax on the money in the year you become entitled to it, and it will grow tax deferred and come out tax free, Labadie said. There are no income or contribution limits and the investment options are vast.

7. Guaranteed Income Annuities

An annuity is an insurance product that allows you invest today and get a guaranteed income stream when you retire. You can get payments issued monthly, quarterly, annually or in a lump sum.

There are different types of annuities. With the single-premium immediate annuity (SPIA), you invest and have to trigger the income right away, which isn't an attractive option now that interest rates are low. The deferred-income annuity (DIA) with a cash-refund option is more popular, because you control when you trigger the income stream and you don't ever have to annuitize, if you don't need the money. And with the cash-refund option, "If longevity is not in the cards you get that hard-earned money back into the family and don't lose the asset," Labadie added.

With annuities, the safety of the company you invest with is paramount. You're betting on their solvency, liquidity and investment strategy. "I would only recommend highly rated companies that have been around for a minimum of 50 to 75 years," said Labadie, "and those that have high ratings from the ratings agencies."

8. Cash-Value Life Insurance Plan

Mike Foguth, founder of Foguth Financial highly recommends cash value life insurance plans, more than 401ks or IRAs. "The big value in this, is you accumulate wealth in a tax-free vehicle," he said.

With a cash-value life insurance plan, you pay for a policy that develops cash value. Once you've accumulated that cash value, you can take a loan against your death benefit to serve as income during retirement. This isn't like a traditional bank loan where you have to qualify. As long as you've built the cash value you can take the loan, Foguth said.

For example, if you have a $1 million dollar policy, and you borrow $500,000 during retirement (which can be set up as periodic withdrawals or withdrawn in a lump sum) the loan is repaid from your benefits at death, and your beneficiary gets the remaining $500,000. The great thing about it is that you can tap into the funds anytime you like, at any age. And the money has already been taxed, so you don't pay tax on any of the distributions you get. This is a great retirement plan for stay-at-home spouses. "You kill two birds with one stone because you get life insurance and retirement income," said Foguth.

Read the whole article at https://bit.ly/328HaxJ

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