

Saving for Retirement should be a top priority



Q: My accountant just called and said that if we contribute to retirement plans, we can save on our 2016 tax bill. Since we are self-employed and don't have workplace retirement plans, we have many options. My husband wants a new boat. I don't know what to do.

A: It depends on how much you are looking forward to being financially free. Money saved today earns interest and investment returns. Postponing your savings has risks. What would happen if you weren't able to work until your planned retirement date? Review the rule of 72; money doubles every 12 years at 6%. Starting early compounds your savings.

You have until 4/17/2017 to fund your Traditional IRAs for tax year 2016. If you're under 50 years old, you can contribute \$5,500 and if you're over 50 can add another \$1,000. If you don't need to save on taxes, consider contributing to Roth IRAs. Although Roth contributions are not tax deductible; the growth is tax free forever. It's even tax free to heirs. Work with your accountant to stay under the AGI limits.

If you're planning to fund a SEP IRA, your deadline is the extended due date of your tax return. The

contribution limit for 2016 is \$53,000 if you're under 50 years old, add \$6,000 if you're over 50. Contributions may not exceed 25% of compensation.

Simple IRA and Solo 401K account owners have to contribute the employee contribution prior to year-end. The employer contribution deadline is the extension date of the tax return. Sometimes self-employed people are both the employee and the employer and can make both contributions.

W-2 employees can't add to their 401Ks because their contributions have to be withheld from paychecks prior to year-end. The contribution limits are \$18,000 for the under 50 year olds with a \$6,000 catch-up for the over 50 crowd.

Rather than getting the boat now, review your budget and trim expenses that are less important. Set up a separate account for the boat and save for it. If your goal is financial independence, then saving for retirement should be your number one priority.

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