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What if my job doesn't have a retirement plan?

Q: I have a job offer from a corporation that doesn't have a retirement plan. How important is an employer sponsored retirement plan and what are my options?

A: Without having a company plan, wage earners may contribute to a Traditional IRA. This year the maximum is $5,500, with a $1,000 catch-up if over age 50. Married couples filing jointly get the full deduction as long as neither spouse has an employer sponsored plan. If either spouse has a plan, the deductibility rules change.

Traditional IRAs are pre-tax just like company retirement plans. There are penalties for distributions before age 59 ½ and at age 70 ½ distributions are required. Tax is due when withdrawals are taken. The assumption is that your income tax rate will be lower during retirement. The IRS provides a chart (thank goodness).

A Roth IRA is tax free forever – but contributions are not tax deductible. No tax is paid on Roth withdrawals and there are no required minimum distributions for original account owners and their spouses. Distributions are required for inherited Roth IRAs who are not spouses.

Singles can contribute to Roth IRAs until their modified adjusted gross income (MAGI) reaches $118,000 (where a phase out begins) and contributions are not allowed if MAGI is over $133,000. Marrieds start phasing out with income at $186,000. The marriage penalty still exists!

IRAs can be held in accounts at banks, mutual fund companies and brokerage firms and may be invested as conservatively or aggressively as the account owner directs.

When a spouse isn't gainfully employed, married couples should consider spousal IRAs. The money can come from any source and invested in the non-working spouse's name.

IRAs are long-term retirement savings accounts and generally have tax penalties for withdrawals before age 59 ½. The exceptions include withdrawals for college tuition, certain medical expenses and first time home purchases.

Self-employed single people can contribute to a Roth IRA and also a SEP or Solo 401(k) when MAGI is less than $133,000. The limit for married couples is $196,000. Again, there is a marriage penalty.

Employer sponsored 401(k) plans often match a percentage of the employees contribution. This is free money and should be considered part of the compensation package. We suggest that everyone find a way to participate, at least to the extent of the match.

If you have two jobs and both employers offer 401(k) plans with a matching contribution, you can contribute to both as long as the $18,000 IRS limit isn't exceeded. Free money!

And if you're still working after age 70 ½ and participating in an employer 401(k), required minimum distributions may be postponed until separation from employment.

Many employers don't have retirement plans, but that shouldn't prevent saving for the golden years. These retirement savings choices allow an immediate income tax savings, and when coupled with wise investing, can make those years way more fun.

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