# Let's Talk Retirement – *Part 2*

## *Starting now nets big results in the future*

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If you recall, last month I wrote about retirement planning and promised to further explain some things you should know about when setting up your IRA. A non-deductible IRA and/or a health savings account (HSA) may be wonderful ways for you to save for retirement. Oh and by the way, if you're married you might not even have to take a paycheck to contribute. Curious? Then read on.

Many people don't know that even if they don't have earned income (W-2 or 1099 income), they may be eligible for an IRA because their spouse made enough to contribute to an IRA for them. The single people are out of luck on this rule, but even if the spouse contributes to a 401K, as long as the couple's adjusted gross income (AGI) is below $83,000 for the year, a contribution of $4,000 can be made ($5,000 if over 50 years old). The couple can contribute a lesser amount if their AGI is between $83,000 and $103,000. The caveat is that the couple must file jointly.

There is also something called a non-deductible IRA. Don't let the name confuse you. It is just a regular IRA but the amount contributed is not tax deductible. The beautiful thing about a non-deductible IRA is that anyone who has earned income at least equal to the amount contributed can have one. This means that although you cannot get a tax deduction, your original contribution can be withdrawn tax free. There is no penalty if the money is withdrawn before age 59½ for payment of higher education, a first-time home purchase, death or disability. Taxes are only paid on the growth of the money. However, if the money is paid back within 60 days of the time it was taken out, there will be no taxes due. This so-called loan can only be done once in a 12 month period. There is also a provision that will allow you to convert your non-deductible IRA to a Roth starting in 2010 which will allow you to have tax-free withdrawals once you reach retirement age of 59½. The caveat is that you will have to pay ordinary income tax on any growth your non-deductible IRA has had when you make the conversion AND all of your IRAs are considered when determining what percentage of the converted amount gets taxed. That means if you have a deductible and non-deductible IRA, the taxes you'll owe will be higher.

Finally, there is a relatively new idea that may save you both money on health care and allow you to save for retirement. It is called an HSA. This is not like the flexible spending accounts of the past where you lose your money if you don't spend it. The money that is not used up can be rolled over from year to year and the money can be invested in mutual funds. The account is funded with pretax dollars and as long as withdraws are spent on qualified health care expenses, it is never taxed. If you found yourself at age 65 and wanting to take funds out for other reasons than health care expenses, then it would be taxed as ordinary income without a penalty. The caveat is that your employer has to set this up along with a high-deductible health insurance plan. The cherry on top for this plan is that the money put into an HSA, while limited, does not count towards your IRA contribution threshold.

There are other options for retirement planning such as a Roth 401K, Simple IRA, SEP and of course the traditional IRA. An IRA is very easy to establish but it also allows the least amount of money to be contributed per year. The rules are clear that even if you have a Roth IRA and a traditional IRA, you can still only contribute a total of $4,000 ($5,000 if over 50) per year. The Roth IRA also does not allow any contributions if you are married filing separately and you lived with your spouse. For more information on the rules, you can check the IRS publication 590 (www.irs.gov/publications/p590/ar01.html#d0e183) and the Smart Money Web site (www.smartmoney.com). Remember, if you do set up an IRA, do not accept a plan that charges you a load fee. The annual fees should also be very low.

Retirement is ahead of you, but it will be here before you know it. Take the time now to investigate your options so you can make the most of what's available to you. And like I said in last month's article, even if you're only saving $50 per month, it's going to make a difference in the long term if you start now. The sooner you start, the bigger the results.

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