ASK THE **ADVISERS**

The views and opinions expressed in “Ask the Advisers” are solely those of Keith Singer.

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Tax Free Income

People who are trying to create tax free retirement income face extremely limited options. Roth IRAs grow tax free, but their contribution limits are $6500 per year ($7500 for those over 50) and they are only available to those who make under $218,000 per year if married.

Some people work for companies that offer Roth 401k’s which allows for contributions up to $30,000 per year without any income limitations, but most people do not have this option. For those who do not have a work sponsored Roth 401k, or for those who are high income earners that need to be saving more than $30,000 per year, there is another option.

Over 75% of Fortune 500 companies, which employ many highly compensated executives, are using non-qualified plans to help their highly compensated employees adequately save for retirement.* Non-Qualified Plans have no funding limits or discrimination testing. That means companies can put unlimited amounts of money away for key employees without having to do so for every employee.

The University of Michigan pours $2 million per year into such a plan for their football coach Jim Harbaugh. Like a Roth IRA, there is no tax deduction for contributions, however there are no taxes on the growth of the account or on the eventual income.

We do not know what tax rates will be in the future but if they are higher in the future, tax free income will be more attractive. Unlike qualified plans such as IRA’s and 401k plans, there is no penalty to withdraw funds from non-qualified plans prior to age 59.5. Moreover, any leftover amounts that go to one’s beneficiaries at death are also tax free.

Whether you are self-employed or have a job, anyone can set up their own qualified plan. If you are looking to maximize your retirement funding to create a large stream of tax-free retirement income, be sure to work with an advisor who has expertise in designing these types of plans.

*Mercer

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