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翻訳

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Saving for Retirement

by John Matthews, MBA & CT
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Terri the Translator and Inez the Interpreter know that saving for retirement is an important component of their overall financial plan. They are familiar with the traditional IRA and the Roth IRA, but are now considering the SEP IRA since they are edging towards more significant income as their businesses are growing.

The traditional IRA and Roth IRA have contribution limits, but since Terri and Inez both had better incomes this year than last year, they would like to explore ways to increase their IRA contributions. One of the methods they are considering is the Simplified Employee Pension (SEP) IRA, also thought by many people to be retitled to be a Self-Employed Person's IRA.

Of course everyone's financial situation and goals are different, so it is always important to consult with your financial advisor, but a SEP IRA functions in many ways similar to a traditional IRA in that contributions are tax-deductible in the year of the contribution and taxable in the year of the withdrawal. Contributions to the SEP may also be made by the tax filing deadline for the self-employed person at the same kind of financial institutions where traditional IRA contributions are made, a bank, brokerage company, insurance company, etc.

One of the significant differences between a traditional IRA and a SEP IRA is that a traditional IRA has an annual contribution limit that is a set dollar amount, but a SEP IRA has an annual contribution limit that is a percentage of your income in that year, generally somewhere between 18 ~ 20%.

So when Terri and Inez have a banner year and want to squirrel away a little bit more for their golden years, they can consider the SEP IRA as a way to do that. When they are getting their taxes prepared by the tax professional, they can figure out the final dollar amount at that time and still make the contribution or adjust the contribution upwards by the April 15 tax filing deadline.

Terri and Inez are happy T&I professionals!