

# Life & Legacy

Redefining retirement, one step at a time

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## Custom Wealth Management

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### RETIREMENT PLANNING

## Retirement strategies for the self-employed

Business owners can build nest eggs in more ways than they think.

Despite the dour economy, entrepreneurs launched more businesses in 2009 than at any time in the last 14 years.<sup>1</sup> But while many entrepreneurs are working overtime to make their fledgling businesses successful, they may be ignoring a critical part of their financial futures: saving for retirement.

Roughly two out of every three owners of microbusinesses—the smallest start-ups in the business world—don't have a retirement plan because they're worried about related maintenance and contribution expenses, according to the National Association for the Self-Employed (NASE). "For many self-employed people, retirement needs take a backseat to other financial needs for their business," says Gene Fairbrother, lead business consultant for the NASE.

### DON'T OVERLOOK THE BUSINESS BENEFITS

If you are among the self-employed population, don't make the same mistake. Choosing to funnel savings back into the business instead of into a retirement plan means you're quite possibly missing out on retirement savings tax breaks. For example, every dollar you contribute to an individual 401(k) reduces your current taxable income.

What's more, plans such as SEP-IRAs and individual 401(k)s offer tax-deferred savings, meaning that taxes aren't due on any of the contributions—or any of the growth in the plan—until you begin making withdrawals.

That means your savings can take full advantage of tax-deferred growth potential.

Consider this example: If you're 45 years old and contribute \$500 a month to a tax-advantaged retirement plan, you may accumulate more than \$250,000 over 20 years, assuming a 7% annual growth rate. "Sadly, we get too many calls from older business owners who haven't set aside anything for retirement," says Fairbrother. "Saving for retirement should be part of the thought process for anybody who's thinking of starting a business."

There are several options for self-employed business owners who want to take advantage of the tax benefits of qualified retirement savings plans. So how do you choose the right one? Here's a rundown on the most popular choices.

**Simplified Employee Pension plans (SEPs):** Often called SEP-IRAs, these tax-deferred plans allow you effectively to contribute up to 20% of your self-employment income or 25% of your income if you're an employee of your business, up to \$49,000 in 2010. SEPs are easy to set up and are often free, making them very attractive for business owners looking for a simple way to save for retirement. Be aware that if you have employees, you must establish plans for them and contribute on their behalf when you make your own contributions.

**Individual 401(k)s:** These plans, available since 2002, have already become popular retirement savings options for the self-employed.

## Who We Are:

Custom Wealth Management comprises a group of trained specialists who help business owners, professionals, executives and retirees understand complex estate, business succession, retirement and investment problems. Its associates are registered representatives of Lincoln Financial Advisors Corp.

The reason: Participants can contribute, as both employer and employee, up to \$49,000 in 2010. One catch: Only you or your spouse can be employees.

**SIMPLE plans:** SIMPLE stands for “Savings Incentive Match Plan for Employees of Small Employers.” The plan offers an easy way for business owners to contribute to their employees’ retirement savings. Signing up for a SIMPLE plan is inexpensive and requires very little administrative work.

**Keogh plans:** These plans carry contribution limits similar to those of SEPs, but require much more administrative oversight, including establishing plan documents and generating annual reports. As a benefit pension plan, Keoghs require participants to contribute a certain amount each year—unlike

most other plans, which have no minimum contribution requirements.

The right plan will depend on your situation. For example, if you are a one-person shop, an individual 401(k) is a better choice than a SIMPLE plan. But whichever plan you choose, make sure you contribute annually. While employees with company-sponsored savings plans can take advantage of automatic payroll deduction and other benefits that make it easy to save, the self-employed typically have to develop the discipline to set aside money each month for retirement. Fairbrother’s advice: Treat your retirement savings like a regular business expense. “The challenge for the self-employed is actually making those contributions,” he says. “Every single month, you need to write yourself a bill and pay that bill to your retirement account.”

**Qualified withdrawals from 401(k) plans and most other tax-deferred retirement plans are taxed as ordinary income and, if taken prior to age 59½, may be subject to an additional 10% federal tax penalty and possibly state income taxes.**

<sup>1</sup>Rossana Weitekamp and Barbara Pruitt, “Despite Recession, U.S. Entrepreneurial Activity Rate Rises in 2009 to Highest Rate in 14 Years, Kauffman Study Shows,” Ewing Marion Kauffman Foundation, May 20, 2010, <http://www.kauffman.org/newsroom/despite-recession-us-entrepreneurial-activity-rate-rises-in-2009.aspx>.

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## TALK TO YOUR FINANCIAL PLANNER ABOUT:

- Which self-employed retirement savings plan may be right for you
- How much you can afford to contribute monthly or annually
- How much you will need to save in order to have a comfortable retirement

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