FUND YOUR GOLDEN EGG BEFORE IT'S TOO LATE!

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4-3-2015

After Easter, many of us should focus on our own Golden Egg as part of the IRS tax filing deadline. April 15th is the date for making tax-deductible contributions to your IRA account, along with other critical financial filings. This is a more important topic due to the 2013 tax rate increases.

For self-employed professionals and those in partnerships, it is not too late to fund a Simplified Employee Pension (SEP) Plan and *take advantage of tax deductible contributions for 2014*, ahead of your tax filing deadline. Extensions beyond April 15th are possible in some instances. The advantage of the SEP is that up to 25% of each employers paid can be contributed. So, someone making $250,000 a year could have a non-taxable contribution of $62,500 by their company. This is a sizable benefit, but the percentage contribution must be applied equally to all employees. Contact OminStar for specifics.

The deduction limits for a Tradition IRA in 2014 are $5,500, with an additional $1,000 excess contribution for those over 50 years of age. The deductibility of Traditional IRAs are limited if you are a higher paid worker or have a retirement plan at work (excluding a Simple IRA), based on Modified Adjusted Gross Income (MAGI). MAGI is the typical Adjusted Gross Income (AGI) on your tax return, modified by adding back deductions for student loans and higher education expenses.

If in an employer sponsored retirement plan, the IRA deduction phases out for Single Files or Head of Households with a MAGI from $60,000 to $70,000 per year or $96,000-116,000 when Married Filing Jointly. If Married Filing Separately the deductibility of an IRA is very limited. If you are not in a company retirement plan, the phase-out of your IRA deductions is only for higher income families when Married Filing Jointly with MAGI from $181,000-191,000. Note for planning purposes, the phase-out levels and the deduction limits increase in 2015. Also remember, contributions to Roth IRAs are not deductible but are limited based on your MAGI.

A Simple IRA is a Savings Incentive Match Plan which is an Employer-Sponsored retirement savings plan with a particular company match to your contributions. As noted earlier, these Plans do not reduce your ability to deduct your Traditional IRA contributions. Plus, the Simple IRA in 2014 employee deferral limit is $12,000, if you are over 50, there is an additional amount of $2,500 for a total of $14,500. If your company does not have a retirement plan, this is a simple option for them to consider in 2015.

The IRS issued a Tax Ruling in September 2014 concerning Cash Balance Plans which will be of interest to highly paid senior professionals. A Cash Balance Plan is a type of hybrid defined benefit plan, which is based on a targeted end value. A typical 401-k is a retirement savings plan with an elective annual deferral limit of $17,500 for 2014 or $23,000 when over 50 years of age. A Cash Balance Plan bases the deferral based on an Interest Crediting Rate (ICR), as well as age and other factors. This could amount to a pre-tax maximum deferral of more than $250,000 per year.

The 2014 tax ruling changed the definition of ICR for the Cash Balance Plan from strictly the US Treasury Yield to that 'not to exceed the market return'. This has been interpreted to be as high as 6% and greatly increases the end target cash balance. Therefore, the amount of deferral has rightly increased significantly. It is important to note that the employer bears the investment risk to fund to the target balance. Returns greater than the ICR will create a surplus and reduce annual deferrals, whereas lower returns would increase potential deferrals. An actuary review should be undertaken to assess the ICR and funding amounts. The first quarterly payment for a Cash Balance Plan is slated for April 15th.

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