Saving for Retirement without a 401(k)

401(k) plans are one of the most popular ways to save for retirement. They can be especially valuable if your employer matches a percentage of your contributions. But what about people who don't have the option of a 401(k)? Entrepreneurs, independent contractors, and many members of the growing "gig" economy may not have the option to utilize a 401(k).

In fact, according to a 2017 Pew Charitable Trust study of public sector workers - 35 percent of Generation X and 30 percent of Baby Boomers don't have a 401(k) savings option available to them. Without a 401(k) as an option, these workers must find other options for their retirement savings.

One option to consider is a traditional IRA or a Roth IRA. These plans are similar in many ways. But they do have some key differences when it comes to yearly contribution limits and tax consequences. Traditional IRAs have tax advantages that can help you today. Qualifying contributions are eligible for a tax deduction in the year they're made. So if you contributed five thousand dollars in 2019, you may be able to exclude that amount or a partial amount from your taxable income for the year.

ROTH IRAs, on the other hand, have tax advantages that will help you in the future. Contributions to a ROTH IRA won't be excluded from your taxable income. ROTH IRA tax benefits come when you make a withdrawal from your ROTH IRA. The account must be open for at least five years to qualify for this tax benefit.

There are other advantages to a ROTH IRA. Contributions can be withdrawn at any time, for any reason, without penalty. Because these contributions have already been taxed, the IRS will not add additional taxes. Any earnings would be subject to additional taxes, however.

There's also no maximum age for contributing to a ROTH IRA. As long as you're making money from a job or business that you're actively engaged with, you can contribute to a ROTH IRA. With a ROTH IRA, there aren't minimum distributions as you get older. Traditional IRAs require account owners to begin taking withdrawals after turning seventy and a half.

Another difference between traditional IRAs and Roth IRAS is the amount you can contribute to your account each year. In 2019, the maximum individual contribution to a traditional IRA is six thousand dollars per year or seven thousand dollars per year if you're fifty or older.

The maximum contribution to a Roth IRA depends on your yearly income. You can contribute to both an IRA and a Roth IRA, but you're still limited to your maximum contribution of six thousand dollars or seven thousand dollars if you're over the age of fifty.

Another thing to keep in mind, is that some high earning individuals may not qualify for a Roth IRA. It's the classic good news vs. bad news scenario. The good news is that if you've worked hard enough to make more than $122,000 a year, you probably have money for retirement. The bad news is that a Roth IRA isn't an option for you. So you'll have to explore other saving opportunities.

If you have the financial flexibility to save more than six or seven thousand dollars a year, what are you options? One potential solution is a Health Savings Account or HSA. If you're enrolled in a high deductible healthcare plan, you may be eligible for an HSA. In 2019, you can contribute up to thirty five hundred dollars as an individual or up to seven thousand dollars per family. You'll also gain tax advantages. HSA contributions are pre-tax and can be withdrawn without tax consequences as long as they're used for qualifying medical expenses.

Self-employed individuals have options as well. They could open a SEP IRA or a SIMPLE IRA. A Simplified Employee Pension Individual Retirement Arrangement or SEP IRA allows self-employed individuals to act as both employer and employee. Money put into a SEP IRA isn't included in income calculations for the employer or the employee.

Investments that are held within a SEP IRA are tax-deferred. No taxes are due until withdrawals are made from the SEP IRA. Though a SEP IRA is considered simplified, it actually has some options and features that many 401(k) plans don't. Unlike some of the previous savings options we've discussed, SEP IRAs usually don't have limitations on the types of investments you can make.

One thing to remember when considering a SEP IRA, if you are a business owner and have employees other than yourself as part of the SEP IRA, you must make the same contributions for each employee. However, when you create the SEP IRA, you can establish who would be eligible to have an account based on minimum work requirements.

The savings incentive match plan for employees, or SIMPLE IRAs, are similar to SEP IRAs. They do have yearly contribution limits, however. In addition, employers and employees can contribute to a SIMPLE IRA. Employers can either match the employee contribution up to 3 percent of the employee's compensation, or they can contribute a fixed rate of 2 percent of all employee compensation.

In a SIMPLE IRA, all contributions are immediately fully vested. Virtually any stock, bond or fund is available for investors to choose as part of their plan. A SIMPLE IRA may be a great retirement option with higher contribution limits than a traditional or ROTH IRA. A SIMPLE IRA also has more investment options than most employee sponsored plans. However, it's important to consider all your options before making a decision on any of the plans discussed today.

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