

Which Is Better?

Stanley Greenfield, RHU

Which is better, an IRA or a qualified retirement plan? That question seems to be coming up more often these days. In fact, this is the question everyone should ask before they decide what type of plan to use. Both offer current tax deductions on contributions, and both shelter earnings until distributed to the participants. The administrative expenses are greater for the qualified plan, and the IRA does not allow you to include other employees.

The major difference between the two is the amount of money that can be contributed each year. The IRA, as you know, has a limit of \$2,000 per year that can be contributed. There are situations when no contributions can be made, but for the sake of this comparison, we will assume that the full contribution can be made; need I say anything about what happens when you "assume" anything? If you contributed \$2,000 each year starting at the age of 30, and made these contributions until age 65, you would have contributed a total of \$70,000. If you were able to earn 8 percent each and every year for the entire 35 years, you would have a total of \$372,204 at age 65.

What if you wait until age 50 to start an IRA? You would contribute \$30,000 by age 65, and at 8 percent you would have a total of \$58,649. Now you see why I say to start as soon as possible and not wait.

In a qualified plan, you can contribute 25 percent of compensation up to a maximum of \$30,000 per year. There are plans that do allow for more but we will stick with a "vanilla" plan for this comparison. You can see that just on the contribution, a 50-year-old can contribute, in one year, an amount equal to the total contributions for an IRA. If that 50-year-old put in \$30,000 per year for 15 years, and got an 8 percent return, at age 65 he would have \$814,563. Just think what could be accomplished with a 30-year-old putting away that kind of money until age 65. Remember, too, that all contributions go in before taxes, and accumulate totally tax deferred. Why doesn't everyone use a qualified plan? For the life of me, I don't know. It's one of the few tax savings that Uncle Sam has allowed us to keep, yet many of you will pass it up still looking for the ultimate tax scam that will only get you, in the long run, a live-in IRS agent.

So, Stanley, which is better, the IRA or the qualified plan? That depends. ... If you are satisfied with a \$2,000 annual contribution, the IRA is the best plan for you, and you should look no further. If you can afford it, by all means, the qualified plan is the way to go, but do something. Don't pass up on a gift from IRS. You can always start with an IRA, and as your practice grows, start a qualified plan at a later date. You have nothing to lose except the tax you will have to pay on every dollar you don't put into some plan.

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