Financial Planning

4 Pre-Retirement Savings Strategies

30 DAYS 30 WAYS

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Because life expectancies have increased, many individuals, not surprisingly, haven't saved enough for retirement.

Here are four not-so-common ways that financial advisors can help these clients save more:

1. **Prevent them from cashing out their 401(k)s**.
Clients often make the painful mistake when managing their 401(k)s of cashing out before retirement to pay off other obligations.

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"Once you withdraw those savings, they're gone, and they can be difficult to replace," says Ken Hevert, vice president of retirement products at Fidelity Investments in Boston.

The older a 401(k) investor when withdrawing assets, which subjects those assets to taxes and potential penalties, the less likely he or she may be to generate a sustainable income during a retirement that could last 25 years or so.

2. **Use defined-benefit plans.**
DB plans are useful as savings vehicles, especially for the self-employed and entrepreneurs.

John Gajkowski, a certified financial planner and co-founder of Money Managers Financial Group in Oak Brook, Ill., has helped establish DB plans for clients who are near retirement.

In the case of one couple who needed to reduce taxes, the husband, 62, had retired, but his wife, 61, continued to work as a self-employed communication consultant.
“For her business, we established a defined-benefit plan, which allowed her to contribute $50,000 to $60,000 a year for the last six years of her career,”

Gajkowski says. “This lowered their current taxes by generating a sizable tax deduction and allowed them to stockpile additional funds for retirement.”

At retirement, she will be able to either turn the plan into a monthly pension or roll over the funds to an individual retirement account, Gajkowski says.

3. **Consider a qualified longevity annuity contract.**
This could be a savings solution for aging clients who want to set up an income stream later in life, when other sources of income may be ending or there is greater need to meet health care expenses.

A QLAC allows retirees to use a portion of tax-deferred assets to purchase a deferred income annuity with a start date after 70 1/2 that doesn’t conflict with mandatory minimum distribution rules, according to Fidelity Investments.

Rather than calculating the amount of an MRD withdrawal on the entire value of all accounts, retirees can use a portion of a traditional IRA to establish a guaranteed steam of income with a start date as late as 85.

4. **Back-door contributions for those whose incomes are too high.**
With this savings strategy, investors who earn more than the Roth IRA income limit, which is $183,000 to $193,000 per married couple this year, contribute the maximum allowed to their traditional IRA. They then are permitted to roll that amount over to their Roth IRA to continue to grow tax advantageously for retirement.

Jason L. Smith, chief executive and founder of Prosperity Capital Advisors in Westlake, Ohio, uses this strategy when working with higher-income clients who want to save for retirement and also minimize future taxes. Contributions to IRAs are restricted by income limits, but conversions aren’t.

Bruce W. Fraser, a New York financial writer, is a contributor to Financial Planning and On Wall Street.