BY ROB CORBO

The Future Is Now: Making Retirement Savings Work

IBIS World, a market research company reporting on businesses, estimates there are 455,608 remodeling companies in the United States employing 692,673 people. It reports that the top three remodeling companies account for less than 5% of total industry employment. The rest of the remodeling industry, including the trades, is dominated by sole proprietors and individually owned private companies with three to five employees, followed by a huge number of one-person businesses. The smaller the company, the fewer the revenues and resources, and the harder it is to plan for the future. We are an industry in crisis when viewed from the perspective of our retirement prospects.

SAVING OPTIONS FOR BUSINESS OWNERS

Individuals operating as a business can open a solo-401(k), which currently allows yearly contributions up to $57,000. If you can rake in enough income as an individual each year, you can set a decent amount aside and accrue something of a retirement in a fairly short time. But not all of us can do that as individuals. For the majority of us who are running small companies with employees, our retirement saving options are far more limited.

How does the owner of a small construction company with employees plan for retirement? There are several options that I will cover in other articles; here, I'll focus on the first, easiest answer: the lowly but powerful individual retirement account (IRA). I say lowly IRA because your contribution is limited to $6,000 a year if you are under 50 years old and $7,000 if you are 50 years of age or older. By comparison a 401(k) has an individual contribution limit of $19,500, a portion of which may be matched by the employer (though this is not available to the business owner). How do you compensate for the contribution difference? You start now, you never stop contributing, and you let time work for you. When it comes to saving for retirement, you can't start early enough, and it's never too late to start. The more time you have, the better.

The importance of time should not be underestimated. It is time that creates the power of compounding. Simply put, compounding means that when you make a profit on your original investment—perhaps through interest—the combined total of original investment and profit produces a larger investment base that then grows at an accelerated rate, exponentially. Albert Einstein has been reported to have said, "Compounding interest is the 8th wonder of the universe. He who understands it, earns it; he who doesn't, pays it." Establishing a retirement account, contributing to it annually, and leaving it to grow tax-free is an example of "he who understands it."

Say, for example, you invest $2,000 yearly into an IRA for 45 years (from 20 to 65 years old). At 5% interest compounded annually, your total contribution of $90,000 will earn $263,340 in interest, for an ending balance of $353,340.

IRA OPTIONS

Sole proprietors and employees of small businesses without retirement plans must save for retirement on their own. Three retirement saving accounts available for individuals are the traditional IRA, the spousal IRA, and the Roth IRA. The advantage of using an IRA to save versus saving outside an IRA is that the money contributed to an IRA is allowed to grow tax-free. Growing tax-free means your investment base is larger and your annual growth is greater.

> When it comes to saving for retirement, you can't start early enough, and it's never too late to start.

The traditional IRA (maximum contributions $6,000/$7,000) is a tax-deferred investment vehicle. You must have taxable income equal to or greater than your contribution. The annual contribution is tax deductible as an adjustment to gross income on your federal tax return, lowering your adjusted taxable income. Funds are allowed to grow tax free until age 72 at which time required minimum distributions (RMD) must be withdrawn and added to your annual income. (When the traditional IRA was established in 1974, it was assumed you would make less money during retirement.) Early withdrawals are taxed as income and incur a 10% penalty. Nonspouse beneficiaries who inherit traditional IRAs have 10 years to close the account; distributions are added to their annual income.

A Roth IRA, unlike a traditional IRA, is not a tax deduction against income and is therefore not a tax-deferred investment. However, once you retire, withdrawals are tax-free, which is a beautiful thing. In addition, in case of an unexpected need, you can take contributions, but not earnings, before retirement without a penalty. Earnings can be withdrawn tax-free starting at age $59^{1}/_{2}$, as long as the account has been open for at least five years.

Contribution limits are the same as for a traditional IRA—$6,000/$7,000 for individuals—but there are income conditions that cannot be exceeded. An adjusted gross income of up to $124,000 for an individual allows you the maximum contribution. Above that amount and up to $139,000, contribution limits are reduced.

A Roth IRA has no required minimum distributions at retirement age. Beneficiaries have no close-out date and are allowed to withdraw contributions at any time but must meet the five-year rule to withdraw earnings tax-free.

The spousal IRA was created by the passage of the 1981 Economic Recovery Tax Act. A spousal IRA is an opportunity for a couple to boost their retirement contributions. A nonworking spouse with little or no income can open a Roth or traditional IRA based on household income. Prior to 1981, contributions to an IRA were based on what you, not your household, made in a year.

RETIREMENT BENEFITS FOR EMPLOYEES

Finding money to contribute to an IRA can be challenging with life's everyday expenses competing for retirement dollars. But there are some answers for that, too.

In the example used above of how a retirement investment can compound, $2,000 was used for a reason: In business, $2,000 represents a one-dollar-an-hour charge for an employee year. An employee year is 40 hours a week for 50 weeks. One dollar an hour dedicated to retirement over 45 years, as the example shows, amounts to some serious money.

A remodeler can decide what hourly rate his market will bear, and add $1, $2, or $3 an hour for retirement benefits. Or, you can start with 50 cents an hour dedicated to retirement and increase the rate as your reputation and business grow. The important point here is to start now, no matter the amount, and let time work for you.

A sole proprietor who wants to provide a retirement benefit to an employee can follow the same strategy. A one-dollar-an-hour retirement charge paid as a $500 quarterly bonus with the understanding that it is to be used for retirement buys a lot of loyalty, reduces turnover, and helps you build your business.

The important point here is to start now, no matter the amount, and let time work for you.

A small business with fewer than 100 employees without access to another retirement account also has the option of creating a Savings Incentive Match Plan IRA—known as a SIMPLE IRA. It is a tax-deferred, employer-provided plan.

Under a SIMPLE IRA, an employee does not have to contribute to the plan, employees are immediately vested, and employer contributions are tax deductible. A SIMPLE IRA requires an employer to meet one of the following: Either match your employee's contribution up to 3% of their total salary or contribute 2% of their salary even if the employee does not make a contribution.

Employees can contribute up to $13,500 a year ($16,500 a year when 50 years old or older). SIMPLE IRAs are more detailed than a traditional or Roth IRA, so an accountant should be consulted to discuss its suitability for your business. Providing that benefit would no doubt enrich the lives of your employees, increase productivity, and up the quality of your hires.

Having a matching option is by far the best way to compound a retirement investment. For a business owner, it can be a great thing to provide to employees as a way to help attract and retain top talent. But for all the little guys, traveling the universe on their own, there's only one option: Start now. Cue up the Chambers Brothers: "Now the time has come. (Time); There are things to realize. (Time); Time has come today ..."

Rob Corbo, a frequent contributor to JLC, *is a building contractor based in Elizabeth, N.J.*