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Now Is a Perfect Time to Reconstruct a Nest Egg

By JAN M. ROSEN

THE turbulent economy of the last two years has left retirement accounts across the nation like beaches after a coastal storm — severely eroded.

The biggest blow to account values came when financial markets plunged in the autumn of 2008. While the markets have recovered some of their losses, further damage has come as many corporations and employees have cut or halted contributions to retirement plans because of declining earnings or losses. Worse, some people have dipped into retirement plans for living expenses after losing their jobs.

"Clients in their mid- to late 60s are asking, 'Can I still afford to retire?' " said Kal Grant, a lawyer and wealth adviser with the J. P. Morgan private banking unit of JPMorgan Chase in Dallas.

The answer depends on a person or couple's assets, lifestyle and retirement goals, she said. While retirement may still be feasible for the affluent, those less well-off or younger people whose modest portfolios have been battered need time to rebuild.

"You can't control tax rates, but at the end of the day, you have to have the asset base in place," said John R. Carl, founder and president of the Retirement Learning Center, a consulting firm.

With six weeks until the April 15 tax deadline, this is an ideal time to start rebuilding. Depending on your eligibility, it may still be possible to contribute to an individual retirement account or another retirement plan for 2009.

Many people feel they cannot afford to do so and want to wait for better times, said Avery E. Neumark, a retirement specialist and partner in the New York accounting firm Rosen Seymour Shapss Martin & Company. His answer is, "Go put money in your plan," adding:

"It's tough to cut back on your lifestyle, but you have to look at the larger picture. The fact is, it's not the '90s anymore. They're over."

The following are tax tips from Ms. Grant, Mr. Carl, Mr. Neumark and other professionals for building up retirement accounts.

I.R.A.'S These accounts may be set up until April 15, and contributions for 2009 may be made until then — up to $5,000 ($6,000 for those age 50 and older), provided the taxpayer has at least that much in earned income, Mr. Neumark said. The contributions are deductible for people not covered by a qualified retirement plan and for anyone within certain income limits: a phaseout range of $55,000 to $65,000 for single taxpayers and $89,000 to $109,000 for married couples filing jointly.

People ineligible for a deductible I.R.A. may augment retirement savings by contributing to a Roth I.R.A., if 2009 modified adjusted gross income falls below the phaseout ranges of $105,000 to $120,000 for single filers and $166,000 to $176,000 for joint filers, or to a nondeductible I.R.A.

"We used to be lukewarm on nondeductible I.R.A.'s," said Bill Fleming, a managing director in the Hartford office of PricewaterhouseCoopers. "Now we are encouraging them for 2009 and 2010." They can set the stage for converting the I.R.A. to a Roth account or build up savings, and the money put into the accounts is taxed at today's rates. Mr. Fleming's firm expects tax rates to rise as the government tries to reduce the deficit.

The downside to having both deductible and nondeductible I.R.A.'s is paperwork, Mr. Fleming said. Under the law, distributions have to be prorated between the two types, so careful record-keeping is necessary.

THE SELF-EMPLOYED People may benefit by making some adjustments in their retirement plans, said Barbara Weltman, a tax lawyer in Millwood, N.Y., and author of several tax books, including "J.K. Lasser's Small Business Taxes 2010."

Contributions for 2009 to a Simplified Employee Pension, also known as a SEP I.R.A., may be made until the due date of the employer's return, which, if extended, is Oct. 15, 2010. (Solo practitioners are their own employer.) Contributions are capped at the smaller of $49,000 or 20 percent of the participant's taxable compensation.

"In the past, retirement plans were looked upon as a great way for business owners to shelter income," Ms. Weltman said, but tax rates are low at present, and many businesses

and professional practices have suffered financially during the recession. So today's problem is often how to rebuild retirement savings, despite shrunken earnings.

One solution, she said, is to adopt a defined benefit plan, to which far more may be contributed than to a defined contribution plan. Account holders can put in the amount needed to provide an annual retirement benefit of up to $195,000, or 100 percent of the participant's average taxable compensation for the highest three consecutive years, whichever is less.

These plans are more complicated and costly to set up and administer than SEPs, and anyone considering one should see a professional adviser. The plan must be set up by the last day of the employer's tax year, but contributions are allowed until the due date of the employer's return, including extensions.

FAMILY SAVINGS Retirement planning should involve the whole family, Mr. Carl of the Retirement Learning Center said, and tax laws make it possible to do that on a tax-advantaged basis. For example, a spousal I.R.A. may be set up and funded for a spouse who earns little or no income if a couple files a joint return and their modified adjusted gross income is within the phaseout range of $89,000 to $109,000. The rules are more complicated if either spouse is a participant in a qualified retirement plan.

Students who earn money in the summer or by working part time are not likely to be thinking of retirement, but parents or grandparents can help assure their long-term financial security, as well as teach them financial fundamentals, by helping them put money into a traditional or Roth I.R.A., Mr. Carl said. The student puts his or her earnings into the account and grandparents give the child an equal amount.