

### Retirement Plans

### Six Main Varieties of Retirement Plans

Type of Plan	Contribution Limit	Tax Deduction	Tax Shelter
<b>DB Plan<sup>1</sup></b>	Varies by age <sup>8</sup>	Yes	Until distribution
<b>401K PSP<sup>2</sup></b>	\$70,000 <sup>3,4,5,8</sup>	Yes	Until distribution
<b>SEP IRA<sup>6</sup></b>	\$70,000 <sup>5,8</sup>	Yes	Until distribution
<b>IRA</b>	\$7,000 <sup>7,8</sup>	Yes	Until distribution
<b>Roth IRA</b>	\$7,000 <sup>7,8</sup>	No	Permanent

#### Terms Defined

**Contribution Limit:** Maximum annual contribution into account

**Income Limit:** Income limit for contribution

**Tax Deduction:** Lowers taxes in year of contribution

**Tax Shelter:** Taxes deferred until distribution or permanent

#### Strategy

**Financial Plan:** Determine retirement savings required to achieve financial goals

**Cash Flow:** Select optimal plan given required retirement savings

#### Example

Employee earns \$100,000.

Saves \$20,000 or 20% of salary for retirement

Tax savings of \$5,000 in current year (except Roth IRA)

In 30 years, the account will cover spending and be worth \$2.5 million.

#### Assumptions:

20% savings rate, 7% investment return and 3% inflation

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<sup>1</sup> Defined Benefit Pension Plan

<sup>2</sup> Profit Sharing Plan

<sup>3</sup> Plus additional \$23,500 in elective deferrals and \$7,500 if 50 and over

<sup>4</sup> Contribution limited to 100% for contributions from salary

<sup>5</sup> Contribution limited to 25% of corporate income and 20% of partnership/proprietorship income

<sup>6</sup> Simplified Employee Pension

<sup>7</sup> Plus additional \$1,000 if 50 and over

<sup>8</sup> Subject to income limits