



Newsletter - May 2015



What are the New "IRAs" All About? *myRA and the Illinois Secure Choice Savings Program (SCSP)*

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2015

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Targeted toward Americans who either don't have access to an employer-sponsored retirement plan or lack options to save for retirement (2.5 million workers in Illinois), *myRA* and the SCSP are designed to give individuals new savings vehicles to assist with developing their own retirement plan.

myRA - My Retirement Account.

Employers can help employees start saving for retirement by introducing them to *myRA* as a new retirement savings option. *myRA* costs **nothing for employers** to participate; they do not administer employee *myRA* accounts, contribute to them, or match employee contributions. The initial *myRA* deposit can be as little as \$25 with subsequent payroll deductions of \$5 or more per pay period. *myRAs* may be offered through employers or private financial institutions. Each payday, employers simply facilitate a payroll deduction from the employee's paycheck to the designated *myRA* account.

A myRA is similar to the Roth IRA in many ways.

1. Participants can contribute after-tax funds up to an annual threshold which is equivalent to a Roth IRA (\$5,500; \$6,500 for age 50 and older).
2. Contributions grow without any current tax.
3. "Qualified" distributions are tax free if it is in existence at least five years.
4. The *myRA* is exempt from the rules requiring lifetime distributions after age 70 1/2
5. The MAGI phase-out range for 2015 *myRA contributions is again the same as the Roth which eliminates this option for upper-income taxpayers (\$116,000 to \$131,000 single filers; \$183,000 to \$193,000 joint filers).*

Unlike a Roth IRA, the *myRA* has only one investment option: a U.S. Treasury bond offering the same variable interest-rate return as the one offered to federal employees. It is backed by the U.S. Treasury and the account carries no risk of losing money. This may give investors more peace of mind, however, the rate of return could pale when compared to other investments. Additionally, when the account balance reaches \$15,000, the investor must roll over the funds to a private-sector Roth IRA.

Savers can withdraw money they put into their *myRA* accounts tax-free and without penalty at any time; however, payouts of interest earnings within the first five

years after their first contribution or before age 59½ are subject to tax, plus a 10% penalty tax may apply.

Illinois Secure Choice Savings Program (SCSP)

Although passed by the Illinois General Assembly in December of 2014, and signed by Governor Quinn (the first state to pass this legislation) the SCSP is not scheduled to become effective until at least July 2017.

This new plan will require businesses and not-for-profit employers, with at least 25 employees, that have been in existence for at least two years, and have no qualified retirement plan, give their employees that are 18 years and over access to this plan. Non-compliant employers will pay a \$250 fine per employee per year (and \$500 after). Employers will not make any contributions to the IRA; however, there is a cost to set up automatic payroll deductions for their employees.

Employee contributions (like Roth IRA contributions) will not be deductible for income tax purposes; however, the investment gains will be sheltered from tax until distribution. The employee default contribution is 3% percent of their paychecks which is automatically deducted and contributed to the IRA (with limitations to the employee's total contributions to IRAs for the year). Employees will be able to opt out and some will be able to voluntarily save more than 3% of their salary.

Unlike *myRA* investments, the SCSP funds will be invested into a target date fund, which shifts investments from stocks to bonds overtime. Options will include a conservative fund, a growth fund, an annuity fund, and a low-risk fund.

Stay tuned, the cost of the SCSP rollout to the state of Illinois is yet to be determined. The program infrastructure, which is subject to federal government regulatory reviews for consistency with the federal law, is very complicated and may be reevaluated by Governor Rauner's administration.

Both options will give individuals the opportunity to save for retirement and keep the administrative cost low for employers. Let me know if we can help your company set up a retirement account.

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