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## Improving Your Retirement: Real Estate Is a Solid Option for Added Income

Plus, solutions for short-term needs and easy diversification.

by Sue Stevens | 02-24-05 06:00 AM

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Dear Sue:

My wife and I are in our early forties and are in an awkward position (it seems) with regard to retirement planning. We earn almost identical incomes and our base salaries combined leave us just shy of \$160,000/year. With bonuses (which have been unreliable in recent years) we can, and often have, earned more than \$160K/year. We're already contributing the maximum to the 401(k) programs offered by our employers and have a combined balance of about \$250K. With the exception of our mortgage and a modest car payment, we are essentially debt-free.

What are our best alternatives for additional retirement savings? We considered contributing to a Roth IRA but aren't sure what the consequences would be at the end of the year if we earn too much to be eligible. Most commentary seems to focus on people trying to "catch up" or higher income families that have already sorted these issues out. But I have to believe there are a lot of us borderline folks earning near the limits that could really use the education to help us jump to that next level. Thanks!

Tim and Debbie

Well, this is a good problem to have. You probably won't be able to contribute to Roth IRAs given your income levels. (If your income is between \$150,000 and \$160,000, your contributions will be limited.

for

 

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There are two possibilities for additional investments that come to mind. First, save in taxable accounts. Second, consider purchasing additional real estate properties. When I design portfolios, I like to see a balance among taxable accounts, net equity in real estate, and retirement accounts. It sounds like your retirement accounts are probably a much bigger piece of your net worth than the other two areas.

Saving in taxable accounts helps you diversify your tax risk. No one knows what will happen with tax rates in the future. There's even talk about President Bush moving toward a consumption tax. Just like you would diversify the holdings in your portfolio, you should think about diversifying the types of investment vehicles you hold to hedge future tax scenarios.

When investing in taxable accounts, you'll be able to take advantage of lower capital-gains rates when you sell stocks. And if you've had a loss on an investment, you can use it to your advantage by netting out capital gains.

Purchasing real estate properties can also be a good way of rounding out your portfolio holdings. Many investors find they enjoy owning a property in an area that they can visit periodically. When they aren't there, they can rent the property and use that money to offset any debt and other related expenses.

Because real estate can be more illiquid than other types of investment assets, be careful when you are choosing potential properties. Most important will be location, of course. You may also want to think about demographic trends too. As the Baby Boomers get older, they will probably be looking for retirement homes (or second homes). Think smaller, efficient, maintenance-free types of living.

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