a long time horizon, you'll benefit from years of tax-free compounding, says Evans. Plus, in 2010, regardless of income, you can convert a nondeductible IRA to a Roth. You'll pay taxes on gains, but you can spread this bill over two years.

> Health savings account. If you're healthy and have low annual medical costs, consider a high-deductible health insurance plan, which your employer may offer. With such a policy, you can open a health savings account to cover medical expenses; this doubles as a retirement account. In 2009, individuals in high-deductible plans can stash up to $3,000 pretax (families $5,950) in an HSA. Money you don't use remains in the account indefinitely. You're not taxed on withdrawals for medical purposes. And after 65, there's no penalty on nonmedical withdrawals; you pay only ordinary income tax as you would with a traditional IRA.

Taxable accounts can have surprising tax benefits, but to take advantage, you must invest wisely.

OPEN A TAXABLE ACCOUNT

Investing outside a tax-deferred plan doesn't have to cost you a lot in taxes. In fact, taxable accounts have some surprising tax advantages, says New York City financial planner Madeline Noveck. Consider that money you withdraw from an IRA is taxed as ordinary income, at a current top rate of 35% (due to increase to 39.6% at the end of 2010). But long-term capital gains in taxable accounts are taxed at a max of 15% (20% at the end of 2010). Plus, you can harvest capital losses to offset gains, particularly useful in today's market. To avail yourself of these benefits, however, you must be strategic about how you invest.

KNOW WHAT TO PUT WHERE

Being conscious about what investments you put in taxable vs. tax-deferred accounts can help you keep tax costs down. Put taxable bonds and REITs in a 401(k) or IRA, as you'll otherwise pay ordinary income tax on their gains. Actively traded stock funds throw off a lot of short-term gains, so they're best in tax-deferred accounts. Put growth stocks and growth funds in a Roth IRA, since you'll pay no taxes on the gains now or later, says Evans. Don't qualify for a Roth? Invest in these via a nondeductible IRA or 401(k).

Finally, stash individual stocks and tax-efficient funds as well as exchange-traded funds—which don't throw off much taxable income—in taxable accounts. (Vanguard Total Stock Market Index Fund and iShares S&P 500 Index ETF are two options from our MONEY 70.)

SAY NO TO INSURANCE

A broker or financial planner may try to sell you a cash-value policy or variable annuity as a way to save for retirement. The pitch is that money grows tax deferred. But these policies carry hefty fees. In an IRA or a 401(k), you can invest in a low-cost mutual fund with expenses of less than 1% a year. The annuity, on the other hand, generally charges 2% or more annually. And there may be a "surrender charge" as high as 15% if you drop the policy. Cash-value life insurance—which combines a savings or investment account with a death benefit—also has big fees and doesn't offer the potential gains most people need for retirement. Use insurance for estate planning or income replacement, not saving.

For Vilrokx and Beysen, fully funding her 401(k), opening nondeductible IRAs and smartly allocating investments should help them meet their goal to quit work when Mark is 55. "We're interested in retiring in Spain or Southern France," says Mark. "One reason I save like crazy is that it gives me more choice." And the less he gives the IRS, the more choice he will have. $

CNNMoney.com
For more information on small business retirement plans and nondeductible IRAs, go to **cnnmoney.com/guide/retirement**.

PLANNING

How to Get a Portfolio Once-Over

The way your investments are going (uh, down), you might be thinking you'd like an adviser to evaluate your strategy. A one-time checkup will run you $180 to $240 an hour—expect two hours minimum. Here's how to find the best person for the job.

STEP 1 START AT THE RIGHT SOURCES

You want a planner who doesn't work on commission, who won't have a vested interest in selling you anything. The "fee-only" designation guarantees that. Search for fee-only planners at garrettplanningnetwork.com or napfa.org. Select five in your area to contact.

STEP 2 GET THE FACTS

E-mail them. Start by asking if they'll provide this one-time service for an hourly rate or a flat fee (some won't) and what the cost would be. Copy and paste the diagnostic questionnaire at napfa.org, under Tips & Tools.

STEP 3 DO AN INTERVIEW

Evaluate the responses, choose one, then ask if he or she offers a no-obligation (no cost) initial interview. Use this to make sure you have rapport. Ask open-ended questions like, What's the biggest mistake you've made? "If someone says, 'I haven't made any,' they don't know themselves that well," says Brent Kessel, founder of Abacus Wealth Partners. "And the most important thing in selecting a planner is that you're willing to take the person's advice."

—KATE ASHFORD