

Individual Retirement Account Basics

Individual Retirement Accounts (IRA) are an excellent way to save for your retirement. Let's look at some of the frequently asked questions about IRAs.

1. What's a traditional IRA?

Anyone under age 70½ with earned income may contribute to a Traditional IRA, which may be tax deductible depending on your modified adjusted gross income and whether you or your spouse participate in a qualified retirement plan through your employer. The earnings in your IRA are always tax deferred, which means you won't pay taxes on the earnings until you receive a disbursement. You must start taking distribution of a traditional IRA at age 70½ .

2. What's a Roth IRA?

Unlike a traditional IRA, your contribution is not tax deductible – it's taxed in the year of contribution. However, the earnings you accumulate in a Roth IRA are not taxed when used for retirement income. This is a big deal! Let's say you contribute the \$520 per year from age 20 to age 65 (\$23,400 total) invested at 8%. Your total earnings are \$205,163 and you're not taxed on the earnings. You're only taxed on the \$23,400 you contributed. To qualify for a Roth IRA, your income cannot exceed adjusted gross income limits. The distributions of accumulated earnings from a Roth IRA may be subject to income taxes and penalties when you are under age 59½ or if you have not had a Roth IRA for more than 5 years. Another good thing about a Roth IRA is that you're not required to take distributions when you reach 70½.

3. What's the maximum IRA contribution for this year?

In 2010 you can contribute up to \$5,000 per year if you are under age 50. If you're over age 50 you can contribute up to \$6,000 per year.

4. Where can I invest my IRA?

You can put your IRA in a number of approved investments, including mutual funds, stocks, bonds and even real estate.

5. Are there any exceptions to the 10% penalty if you withdraw funds from your IRA before age 59-1/2?

Yes, there are several exceptions. You won't have to pay the 10% penalty if you're disabled, you have extremely high medical expenses, you're a first time home buyer, you need the money to pay for college education, you need the money to pay for health insurance, or you receive regular withdrawals using the substantially equal period payments (SEPP).

6. Can I contribute to an IRA if I don't work?

No, you must have earned income to contribute to an IRA. Earned income is defined as wages, commissions, bonuses, tips, self-employment income and fees for professional services.

7. What's a spousal IRA?

If you are married and either you or your spouse is not working, the working partner can contribute up to \$5,000 per year (under age 50) or \$6,000 per year (50 or older) in a spousal IRA.

If you're married and a stay-at-home mom, you're working – just not getting paid for your work. If your husband is working he can contribute to a spousal IRA. In 2007 your spouse can contribute \$5,000 if you're under age 50. Do you think that sounds like a lot of money? Let's look at \$5,000 as your annual salary for your job as Stay-at-Home Mom. If we consider 40 hours a week, your hourly wage is less than \$2.50 hour. Don't you think you deserve it? Yes, you do! Respect and protect yourself, contribute the maximum to a spousal IRA.

Morningstar has an IRA calculator to help you make decisions regarding your IRA. Visit the website online at <http://screen.morningstar.com/ira/IRACalculator.html> .

Think retirement is a long ways off? Think again! I can still remember my father telling me that the years would speed by faster and faster the older I got. I hate to admit it, but he was right! It seems like only yesterday I was in my 20s and now I'm in my 50th. Don't wait -- start funding your IRA today!

Remember that IRAs are *Individual* Retirement Accounts – not joint accounts. They're also considered non-probate assets – named beneficiaries supersede your will.