Individual Retirement Accounts (IRAs)
Individualized Savings for Retirement

You can't control tax legislation or social security. But you can control your own savings — the most important part of your retirement income.

An Individual Retirement Account, or IRA, is a personal retirement savings plan open to persons under age 70 1/2 who receives taxable compensation during the year, or who have a spouse who does so. Compensation includes wages, salaries, fees, tips, bonuses, commissions, taxable alimony, and separate maintenance payments. Husbands and wives may both open an IRA even if only one person is working. With a few exceptions, contributions are limited to $4,000 per year per individual. All earnings within the IRA are untaxed until withdrawn. Contributions may be deductible in the tax year made depending on the owner's income tax filing status, adjusted gross income and eligibility to participate in a tax qualified retirement plan through employment.

Types of IRAs

Traditional IRAs: Set up with a financial institution like a bank, broker or mutual fund, Traditional IRA contributions may be invested in stocks, bonds, money market funds, CDs and other securities.

Individual Retirement Annuities: An Individual Retirement Annuity is established with a life insurance company through a special annuity contract.

Group IRAs: An Employer and Employee Association Trust Account, or Group IRA, is an IRA set up by employers, unions, and other employee or membership based associations.

SEP IRAs: Using a Simplified Employee Pension, or SEP IRA, small business employers make contributions of up to $44,000 or up to 25% of an employee's annual salary to each employee's IRA.

Simple IRAs: A Savings Incentive Match Plan for Employees IRA, or SIMPLE-IRA, is set up by a small employer for a firm's employees. Employees may defer up to $10,000 per year and will receive a matching percentage of pay from their employer. Between the employer and the employee, up to $12,000 may be contributed annually to the participant's account.

Spousal IRAs: A Spousal IRA is an IRA funded by a married taxpayer for a spouse who earns less than $2,000 a year. To qualify, the couple must file their tax return jointly in the year of the contribution. The working spouse may contribute up to $4,000 per year to the Spousal IRA and up to $4,000 per year to his or her own IRA.

Rollover IRAs: When you receive a lump sum distribution from an employer retirement plan, a Rollover IRA is the ideal place to put that distribution to prevent penalties and taxation. That distribution may then be transferred into a new employer's qualified retirement plan, or placed in a bank or brokerage based IRA. Make certain the new employer's plan accept rollover contributions. To be considered a Rollover IRA, the IRA must only be composed of the original distribution and earnings.

Inherited IRAs: An Inherited IRA is received by the non-spousal beneficiary of a deceased IRA owner. Special rules apply to inherited IRAs. Contributions to an Inherited IRA are not tax deducible, a rollover to or from another IRA is not permitted, and the proceeds must be distributed and taxed within an IRS established time period. If the owner died before taking required minimum distributions, then the beneficiary must receive distribution of the inherited IRA by December 31 of the fifth year following the owner's death. Alternatively, the IRA may be paid as an annuity or in installments payable over a period not extending beyond the beneficiary's life expectancy. If the owner started to receive required minimum distributions, then the beneficiary must receive the remainder of the IRA at least as quickly as the owner would have under the distribution schedule selected by that owner prior to their death.

Education IRAs: An Education IRA must be used to fund a beneficiary's education for either kindergarten through 12th grade or college. There is no tax deduction allowed for the contribution, but you can withdraw all EIRA deposits and earnings tax and penalty free. Contributions are limited to $2,000 per year, may be made regardless of the beneficiary's income until he or she turn 18. And you can still contribute $4,000 to any other IRA. Be careful, if distributions exceed education expenses, the excess will be earmarked as gross income and subject to the 10% excise tax. Contributions phase out at $190,000-$220,000 for joint filers and $95,000 for single filers. If unused on or before age 30, the EIRA is transferable to a new beneficiary for educational use. Such transfers must occur before the beneficiary reaches age 30.

Roth IRAs: Unlike other IRAs, you do not have to wait until you are 70 1/2 to take withdrawals from a Roth IRA. You must have held a Roth IRA for 5 years, however, and you may then withdraw earnings without penalty. Contributions to a Roth IRA are not deductible and are limited to $4,000. But qualified distributions are not subject to tax. A withdrawal or distribution is "qualified" when it meets one of these criteria:

- Made after the taxpayer attains age 59 1/2.
- Made to a beneficiary after the taxpayer's death.
- Made because the taxpayer is disabled.
- Made by a first-time homebuyer to purchase a principal residence.

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Contributions to a Roth IRA may be made even after the owner reaches age 70 1/2. The $4,000 limit is phased out as AGI increases from $150,000 to $160,000 for married filing jointly or $95,000 to $110,000 for single filers.

Amounts in deductible IRAs may be transferred to Roth IRAs provided the taxpayer's married or single AGI for the transfer year is $100,000 or less. Transferred amounts are included in that year's income, but the money transferred is exempt from the 10% excise tax for a withdrawal prior to age 59 1/2. Remember, withdrawals on transferred amounts are not considered qualified distributions unless they are made more than five years after the transfer.

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