

# INDIVIDUAL RETIREMENT ACCOUNTS

An IRA is a tax-sheltered vehicle. The funds contributed to an IRA grow tax-deferred. Sometimes the amount contributed can be deducted from income taxes if you are below certain income levels (traditional deductible IRA). If you are above certain income levels the contribution cannot be deducted (traditional non-deductible IRA), but the growth is still tax-deferred. In traditional IRA's you are not taxed until withdrawal. In a Roth IRA you can never deduct the contribution (therefore it is considered "after-tax" money), but you are also not taxed on the growth upon withdrawal (tax-free). IRAs are retirement accounts so a penalty of 10% will be assessed on any withdrawals before age 59 ½ (with a few exceptions).

## 1. Traditional IRA:

- Can be deductible or nondeductible, depending on your income level and whether you are covered under an employer's retirement plan.
- Accounts are individual; there are no 'joint' IRA's. You can, however, have one for yourself and one for your spouse.
- Contributions for traditional and Roth IRA's are limited to \$4,000 per year for 2005-2007.
- Earnings grow tax-deferred, and the gains are taxed upon withdrawal. If the earnings are withdrawn prior to age 59 ½ there is a tax penalty assessed and taxes are due.
- An additional \$500 can be contributed by those over 50.

## 2. Rollover IRA:

- An IRA that holds money transferred from other retirement plans.
- You cannot make regular contributions to a rollover IRA, but you can add funds from other qualified tax-deferred pension plans.
- It is important to separate tax-deferred funds into a rollover IRA so that the money will maintain its tax-deferred status.
- A rollover IRA is a self-directed IRA, you choose the investments.

## 3. Roth IRA:

- No tax deduction for contributions; however, the money grows non-taxed. Taxes are never due on the growth of Roth funds.
- At retirement all the money can be withdrawn tax free, forever.
- Some money can be taken out of a Roth IRA after as few as 5 years, with no taxes or penalties due.
- Traditional IRA's can be converted to Roth IRA's, but all taxes are due and payable in the year of conversion.