

How to Get more Bang for Your Retirement Buck

Americans view saving for retirement like they view losing weight: something they ought to do, but just can't seem to get going on.

The purpose of this report is to explain one way to help do that – the IRA (individual retirement account).

Please keep in mind that this information is only a guide. Consult a tax expert or financial planner to evaluate your particular situation.

First, some essentials

- Taxpayers who contribute to their IRAs before the tax deadline can, in many cases, deduct their contribution from their taxes. For example, if you contribute \$2,000 to your IRA on Feb 3, 2008, you may be able to deduct that amount from your 2007 tax bill.
- Be aware of income guidelines for contributing to your IRA
- Even without the tax benefit, IRAs are a great way to save money for retirement. That's because the earnings don't get eroded by taxes – over time a tax-deferred investment like an IRA can save you thousands of dollars.
- Start early. Even teenagers should have IRAs. The earlier you start, the more the money compounds. It can add up to thousands.

Okay...back to basics. Here are some of the most common forms of IRAs.

Traditional IRA

- Contributions (under some circumstances) aren't taxed until withdrawal.
- Withdrawals taxed at your income rate of withdrawal
- 10 percent penalty may apply if withdrawn before age 59 ½
- Can contribute up to \$4,000/year or 100% of earned income, whichever is less
- If married, contribute up to \$8,000 or 100% of combined income, whichever is less
- Workers over age 50 can "catch up" with up to a \$1,000 payment (\$5,000 total)
- Some withdrawals are allowed – first time housing for you, spouse, children, grandchildren or parents. Plus some education expenses
- Penalty free withdrawals allowed for death, disability and medical expenses exceeding 7.5 percent of gross income, and to purchase health insurance if you are on unemployment for 12 weeks or more.
- Minimum distributions required at age 70 ½
- If you receive a pension or 401(k) payment, you can roll it an IRA and defer the taxes.
- Consult a tax advisor to find out how state, federal and local tax laws affect your situation.

Roth IRA

- Tax-free if held for at least five years and if you take distributions after age 59½
- You can keep account open after age 70½ (unlike traditional IRAs) and keep adding to them
- Tax-free withdrawals allowed for first-time home-buying expenses (\$10,000 limit) for you, spouse, children, grandchildren or parents and certain medical expenses
- Can contribute up to \$4,000/year or 100 percent of earned income, whichever is less.
- Married people can contribute \$8,000/year or 100% of combined income between the each spouse's IRAs.
- Workers over 50 can give "catch-up" payments totaling \$1,000/year
- Consult tax advisor about your specific situation

Questions and Answers

Which IRA is Right for You?

Good question.

Unfortunately, it's complicated. You have to think about tax brackets, your other assets, your age, other retirement investments, your retirement age...and more.

Can I have both types of accounts?

Yes, but the combined contributions cannot go over \$4,000.

Are there some general rules?

Yes. A Traditional IRA may be a good deal for you if:

- You expect to be in a lower tax bracket when you retire
- You need the tax deduction

A Roth IRA might be a good deal for you if:

- You expect in the same or a higher tax bracket at retirement
- You're between 18 and 44 years old
- If you won't need your IRA for living expenses
- You want to leave large assets to your heirs

What is a Coverdell Education Savings Account?

- It's formerly called an Education IRA
- A way to pay for qualified higher education expenses like tuition, fees, books, supplies and equipment at college, vocational, public and private elementary and high schools.
- Available only to children under 18
- Each child can receive \$2,000/year in after-tax contribution.
- Earnings grow tax-free

- Distributions taken after five years are tax free, but must be used for education expenses
- Make sure to consult with a tax expert

What is an IRA Certificate?

- A way to earn higher dividends on retirement dollars
- Deposit a minimum of \$1,000 and choose terms of 36 or 60 months
- No annual fees
- A dividend penalty may be incurred for early withdrawal

What do I do next?

Members Cooperative can help you make the best decision for your situation. We'd be happy to answer your questions.

Call us at 800.296.8871, stop by any of our [locations](#) or e-mail us contact@membersccu.org.

Pass this information on to a friend.

Need more answers?

Try these links:

<http://www.smartmoney.com/retirement/ira/index.cfm?story=supertable>

<http://www.entrepreneur.com/worklife/personalfinance/retirementplanning/article79290.html>