

IRAs Complement Employer-Sponsored Retirement Plans

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Individual retirement accounts (IRAs) have long been available for individuals to save for retirement, providing favorable tax treatment and offering a flexible way to cover retirement expenses. If you are a public sector employee with an employer-sponsored retirement plan, an IRA would be a good way to complement your employer-sponsored plans.

Depending on your retirement planning needs, an IRA may be an important component of your overall retirement savings portfolio. By opening an IRA, you can achieve a balance that includes

your retirement plans, personal savings, and Social Security.

An IRA is a special, tax-advantaged account that allows you to build savings for your later life. Depending on the type of IRA you choose, you can save on taxes today on your contributions, or you can have tax-free withdrawals when you're ready to take your money out. Each IRA option has features that could benefit you one way or another. You should consider them carefully, especially if you're already contributing the maximum allowable amount to your employer-sponsored plan.

Two basic types of IRAs are available to help you save: the traditional and the

Roth. Both types allow you to avoid paying taxes on any earnings while these earnings remain in the IRA. The Roth and the traditional IRA, however, differ significantly in the tax treatment of contributions and distributions. Here are some of the features of the two types.

The Traditional Model

Traditional IRAs allow you to make annual contributions of up to \$2,000 per person or \$4,000 per couple even if there is one earner. Contributions may be partially or fully deductible, depending on your filing status and income level. Your

Deciding Which IRA Is Right for You

How do you determine the IRA that is best for you? Consider each IRA's particular benefits, the number of years until you retire, and your current—and expected future—tax brackets. Remember that you can spread your \$2,000 contributions between both the traditional and Roth IRAs. The maximum aggregate annual contribution allowed for either type of IRA is \$2,000 (\$4,000 for couples).

Here is a series of questions to help guide you in choosing your best IRA.

IRA Questionnaire

If you answer "yes" to most of the following questions, then you should consider contributing to a Roth IRA, assuming that your modified adjusted gross income (MAGI) is at or below the eligibility limits:

- Do you want tax-free access to your earnings after five years and after attaining age 59½?
- Do you want to continue contributing after age 70½ if you have earned income?
- Do you want to leave all your IRA money invested after age 70½?

- Do you want to be able to pass on tax-free earnings to your beneficiaries?
- Do you think your tax rate will be higher when you retire than it is now?
- Do you have a long time in which to contribute to an IRA?

If you answer "yes" to the majority of the next few questions, then you should consider establishing a traditional IRA:

- Do you qualify to deduct all or part of your annual IRA contribution?
- Do you think your tax rate will be lower when you retire than it is now?
- Do you want a fully deductible IRA for your spouse, who is not participating in an employer plan even though you are (and your joint MAGI is below \$150,000)?

These questions are meant to guide you, not to give you a definite answer. There are many factors to consider in making this decision. Before you make any decisions, consult your tax or financial adviser.

investments grow, tax-deferred, and you only pay taxes when you withdraw these earnings from your account in your retirement years. You can begin penalty-free withdrawals from your account at age 59½.

The Roth Account

Like the traditional IRA, the Roth IRA allows you to make annual contributions of up to \$2,000 (\$4,000 for couples). And like the traditional account, you won't pay taxes on earnings while they remain in a Roth IRA. In addition, you won't even owe taxes on the assets you withdraw from a Roth IRA as long as you satisfy two requirements:

- You hold your money in the Roth IRA for at least five years.
- You're over age 59½ when you withdraw the money, or you're using that withdrawal to help pay for a qualified first-time home purchase. This op-

RC's Web Site Provides An IRA Analysis

When choosing an IRA, you should consider the particular benefits of each IRA, the number of years until you retire, and your current and expected future tax brackets. To assist you in the decision-making process, use the ICMA Retirement Corporation's interactive "Vantagepoint IRA Analyst" at RC's Web site, <http://www.icmarc.org>. By answering a series of easy IRA analyst questions, you will have a better idea of which IRA is right for you.

portunity for lifetime tax-free earnings is what makes a Roth IRA such an attractive way to build your retirement assets.

To help you decide on which IRA is right for you, accompanying this article is a short questionnaire to aid you in

choosing one. You also will find information on the Internet at the Retirement Corporation's Web site at www.icmarc.org, where you'll find IRA guidance and a calculator that can help you determine which type best meets your needs. Additional information on IRAs is available at the Internal Revenue Service Web site at www.irs.gov. There, you can read further details on IRAs and recent rule changes, as well as a Q&A section.

If you are looking for a way to complement your employer-sponsored retirement plan, consider opening an IRA. Consult your tax or financial adviser before taking any action. It's never too late to open an individual retirement account. **PTI**

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