

Employer's plan, then IRA

If you're already saving the maximum allowed in your retirement savings plan at work, well done! If you still have money to save, consider contributing to an Individual Retirement Account (IRA). They offer tax-advantaged ways to meet your retirement goals.

Which IRA is best for you?

A **Traditional IRA** is a great solution if you have earned income and are under age 70½. Contributions may be tax-deductible, and taxes on earnings are deferred until the funds are withdrawn.

A **Roth IRA** is an alternative to a Traditional IRA. There are no age limitations; however, you must meet certain income requirements to qualify. Roth IRA contributions are made with after-tax dollars, but funds invested can grow tax-deferred, and qualified withdrawals can be made tax-free.

Whether you contribute to a Traditional or Roth IRA, steer clear of potential tax penalties. There are three areas where tax penalties may apply—but it's easy to avoid them.

Early withdrawal. As a rule, you need to be age 59½ before you start withdrawing money from a Traditional IRA. Otherwise, you will pay a 10% penalty on top of any income taxes you may owe on the money. With a qualified Roth IRA, you can make tax-free and penalty-free withdrawals of contributions at any time, although to withdraw earnings, you must be 59½ and your account must be open for five years.

Over funding. You can contribute as much as \$5,000 to a Traditional or Roth IRA in 2010, \$6,000 if you are age 50 or older. If you contribute more than the maximum, you will need to pay 6% in annual excise taxes on the extra amount, and you'll owe taxes on any earnings.

Required minimum withdrawals. Typically, you must start taking money out of your Traditional IRA no later than April 1 of the year after you turn 70½. You may want to consult a tax advisor for help in deciding how to calculate your required withdrawals. If you don't withdraw enough, you'll owe a 50% penalty on the shortfall.

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