

Investor I.Q. Test Your Knowledge of IRAs

True or False: Test Your Knowledge of IRAs

1. Money earned in any type of Individual Retirement Account (IRA) can be left to grow tax-free indefinitely.

False. With a Traditional IRA, you don't pay taxes on earnings while they're growing, but you'll owe taxes on the earnings as well as on your original contributions when you start taking distributions from the account, which you're required to do at age 70½. Although you're never required to take a distribution from a Roth IRA, if your account has been open at least five years and you're at least age 59½, any withdrawals you make are tax- and penalty-free. It's important to remember that early withdrawals from Traditional or Roth IRAs may be subject to taxes and penalties.

2. Assets held in a former employer's retirement savings plan may be rolled over into a Traditional IRA.

True. The most important reason you may want to consider a rollover is that it will allow your money to continue to grow tax deferred until you withdraw it later. A direct rollover is a transfer of assets from your plan to an IRA. It's not an actual distribution of funds, so there aren't any resulting taxes or penalties. In contrast, if you take a full or partial cash distribution, the federal government withholds 20% of the distribution for income tax and, if you're not yet age 59½, an additional 10% tax penalty.

3. Anyone can contribute to a Roth IRA.

False. Eligibility is determined by modified adjusted gross income (MAGI). In 2010, if you are a single filer with an MAGI of less than \$105,000 or a joint filer with an MAGI of less than \$167,000, you are eligible to contribute the maximum to a Roth IRA. The allowable contribution phases out the higher your MAGI. After \$120,000 for single filers and \$177,000 for joint filers, it's zero.

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