Tax-Smart Saving

No matter how volatile the markets, it's always a good idea to fully fund your tax advantaged retirement accounts—your employer-sponsored retirement plan and an individual retirement account (IRA). Here's why:

IRAs offer built-in tax benefits
Your IRA contributions can grow federally tax free or tax deferred, allowing earnings in the account to compound more quickly than those in taxable accounts.[1] If you can't afford to fully fund both your employer's plan and your IRA, consider contributing to your employer's plan at least up to the amount, if any, that your employer matches. Then, depending on your income and other factors, contribute to a Roth IRA, which grows tax free, or a tax-deductible Traditional IRA.

Which IRA is best for you?
If you're able to save the maximum allowed by your workplace retirement plan, or at least up to any employer match, which IRA should you consider?

• Make a Traditional IRA contribution if it's tax deductible.
This is particularly valuable if you expect to be in the same or a lower income tax bracket in retirement. Depending on your income and whether or not your have access to an employer-sponsored retirement plan, you may get an income tax deduction, and you'll likely have more investment choices.

• Make a Roth IRA contribution if you're eligible and can't take a Traditional IRA tax deduction.
You can't deduct your Roth IRA contribution, but down the road, qualified withdrawals will be tax free if you meet certain conditions. And you don't have to take distributions at age 70½, as you must with a Traditional IRA. That means your Roth IRA can continue to grow tax free.

[1] You have until April 18, 2011 to make your 2010 IRA contribution of up to $5,000, or up to $6,000 if you're age 50 or older.

© 2009 SmartMoney. Prepared by SmartMoney Custom Solutions. SmartMoney is a joint publishing venture of Dow Jones & Company, Inc. and Hearst Communications, Inc. All Rights Reserved.

CustomSolutions
FROM SMARTMONEY