BUCK FINANCIAL ADVISORS, LLC

"Helping you Determine your Financial Future"

Which IRA is right for you?

Vol.3 Issue 3 March 2008

There is a wide variety of tax-advantaged ways for individuals to save for retirement; my first recommendation is your employer sponsored plan if there is a match. You have to contribute up to the point that you receive all the "free money". Because of their income tax benefits and because IRAs are so easily established, they have become one of the most often used retirement savings vehicles available today.

As you contemplate funding IRAs, you may wonder which type of IRA Roth, Traditional or Non-Deductible, is the better choice. First you have to determine if you are eligible for an IRA. The non-deductible is the only one that has no income limitations. The Traditional deductible IRA has income limits if you are eligible for another retirement plan. The Roth has limits if your income is higher $159,000 if married, $101,000 single.

If eligible, the Roth is my favorite; with some unique advantages for your and old alike. First, I feel that tax rates will be going up in the decades ahead, therefore in the long term, the Roth will provide more after tax income. Another advantage of the Roth is if you have an emergency, you can withdraw your contributions tax free and without penalty. If on the other hand you do not every need you your IRA funds, there are no required distributions at 70½, and you can leave to your heirs' tax free. Even in retirement, if you have some earned income your can fund a Roth up to the level of your earned income; even if you use money from an existing taxable account.

The main feature of the traditional deductible IRA is that you can contribute pre-tax money. If your income is low enough to contribute to a traditional, you should probably contribute to a Roth, unless you are not eligible for a Roth, and are eligible for an IRA. There are some disadvantages to the traditional such as the Required Minimum Distribution at age 70½. If your income is high enough to not qualify for a Roth, then you would probably be better off with a low cost index fund in a taxable account and take advantage of lower capital gains rates. Capital gains tax rates will likely increase, but historically this rate has been lower that regular income.

There is not much advantage to a traditional Non-deductible IRA, with one exception. In 2010 the income limitation on conversion to a traditional to a Roth is scheduled to be eliminated. If you have do not have a large deductible IRA, and are not eligible for a Roth, you can fund a non-deductible IRA for a few years and then convert to a Roth in 2010. Two caveats: If you have existing deductible IRA accounts, all IRA, both deductible and non-deductible, must be converted pro rata. Secondly, the congress could change the law and eliminate this option.

IRAs are a good choice to build wealth, and everyone should consider them if the are eligible.

Charles Buck CFP®

"Try not to become a man of success, but rather to become a man of value."

Albert Einstein

ASK A CFP® PROFESSIONAL!

Are capital gains really going away in 2008?

Yes and No! If your taxable income is in the two lower tax brackets in 2008 through 2010, your capital gains portion of the amount is taxed at the "zero" rate.

How is that figured? For a couple filing jointly, the 15% bracket goes up to $65,100, therefore if your non-capital gains income is less than this amount, the difference between $65,100 and your non-capital gains income is taxed at the "zero" rate.

As an example, if your taxable income excluding capital gains is $50,000, and additionally you had $30,000 in capital gains. You would use the "zero" rate for $15,100, and the normal 15% capital gains rate for the remaining $14,900.

This will present some planning opportunities if you have some appreciated assets, and can reduce your income into the lower two brackets. If you are retired, you might want to consider delaying Social Security or a pension. If working, you can decrease income by delaying payments, or increasing expenses.