

## Try and Avoid These Stupid IRA Mistakes

Fortunately, Dec. 31 is not the final decision date for what we do with our individual retirement accounts – the final 2007 IRA contribution deadline comes on April 15 next year – but it's a good time to review the do's and don'ts of successful IRA management.

**Mistake No. 1 – Failure to start:** Do you have either a traditional or Roth IRA as part of your retirement strategy? If not, get some advice – a Certified Financial Planner™ professional is a good start – to review your overall retirement options and give you some ideas where to start.

**Mistake No. 2 – Not comparing the advantages of traditional IRAs and Roth IRAs:** The biggest differences between a traditional IRA and a Roth is the way Uncle Sam treats taxes on both types of IRA investments. If you put money in a traditional IRA, you'll be able to deduct that contribution on your income taxes. In a Roth, you don't receive the tax deduction for those contributions, but when it's time to take the money out, you won't have to pay taxes on it.

**Mistake No. 3 – Forgetting income limits for a Roth IRA:** The income limits for establishing a Roth are as follows: for a married couple filing jointly or a qualified surviving spouse, you can't contribute if your modified adjusted gross income exceeds \$166,000; if you're filing single, you can't contribute if your modified AGI exceeds \$114,000, and for married people filing separately, you can't contribute if your modified AGI exceeds \$10,000. If you exceed those income limits and make a deposit, you might be subject to a penalty.

**Mistake No. 4 – Failing to make sure your beneficiaries are correct:** Starting in 2007, a direct transfer from a deceased employee's IRA, qualified pension, profit-sharing or stock bonus plan, annuity plan, tax-sheltered annuity, 403(b) plan or a governmental deferred compensation plan to any qualified IRA can be treated as an eligible rollover distribution if the beneficiary is not the deceased's spouse. That means your kids or any other designated recipient can inherit your IRAs without negative tax consequences at that time. Non-spouse beneficiaries need to check with a tax expert when they must begin distributions from an inherited IRA. Of course, no matter what the investment, make sure your beneficiaries are always current.

**Mistake No. 5 – Not knowing the maximum contribution:** For both traditional and Roth IRAs, the maximum annual contribution for 2007 is \$4,000 unless you are age 50 or older, when you can add an additional \$1,000 to that total. But review the income limits for contributions as you go.

**Mistake No. 6 – Frittering away your tax refund:** Did you know you could deposit your tax refund directly into your IRA? It works for a health or education savings account as well. While many people use their tax refund as a bonus to buy a treat or pay off bills, consider filing your taxes a bit early and arrange to e-file a direct deposit to your IRA so you can note that deposit for the 2007 tax year by next April 15.

**Mistake No. 7 – Forgetting retirement savings benefits for active military personnel:** The 2006 Heroes Earned Retirement Opportunities (HERO) Act allows active military personnel and their families to put a potentially greater contribution toward their traditional or Roth IRA accounts. The act allows tax-free combat pay to be considered as earned income to determine the contribution amount for traditional and Roth IRAs – it hadn't before. Before, a military person

who earned only combat pay wasn't allowed to contribute to either form of IRA. This change is retroactive to 2004 and affected military personnel have until May 28, 2009 to make their contribution, though amended returns may be filed.

**Mistake No. 8 – Withdrawing money early from an IRA or blowing a rollover:** Money taken out of an IRA is subject to income taxes and a penalty if you are under 59 ½ years old and do not put it back into an IRA within 60 days. When moving assets, most of the time a trustee-to-trustee transfer can be more efficient and with less margin for error. If the IRA distribution check is made payable to you, there is a greater chance you'll miss the 60-day deadline and you'll face taxes and penalties.

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