What's Happening With Your IRA? Time for a Checkup

Given changes in tax laws that have occurred during the past few years, a retirement readiness review could be a good idea if you have an individual retirement account (IRA).

Most of us understand that visiting a doctor periodically is important in maintaining our long-term health. Sometimes it's a good idea to do the same thing with our investments. Given changes in tax laws that have occurred during the past few years, a "checkup" could be a good idea if you have an individual retirement account (IRA).

Checklist for a Checkup
Just as a doctor targets certain areas during an annual physical, you might want to address the following questions during your IRA checkup:

Have you made the right choice between a traditional and a Roth IRA? Traditional IRAs offer tax deferral and the potential for tax-deductible contributions if you meet income thresholds.[1] Account holders, however, must begin taking required minimum distributions (RMDs), which are taxed as ordinary income, no later than April 1 following the year in which they turn 70½.

Roth IRAs do not offer a tax deduction but they provide other benefits. Qualified withdrawals are tax free, you can continue contributions past age 70½ and there are no RMDs. You must, however, meet income thresholds. Remember, if you have a traditional IRA and believe that a Roth IRA would be more suitable, you may be able to convert from a traditional to a Roth IRA.[2]

Are you contributing the annual maximum or as much as you can afford? Keep in mind that you may be able to take advantage of the maximum annual contribution of $5,500 in 2013 – plus a $1,000 "catch up" contribution if you are age 50 or older.

If you are changing jobs or retiring, do you plan to roll over money from your former employer's plan to an IRA? A rollover IRA allows you to maintain the benefit of tax deferral and lets you choose from an almost unlimited range of investments. While you cannot roll assets into a Roth IRA, you may be able to roll them into a traditional IRA and then convert it to a Roth IRA. This action could have tax consequences.

Have you developed a strategy for taking distributions from your IRA if you will soon be required to do so? RMD rules were recently revised but they can still be complicated. The right distribution strategy could save you money and stretch your assets.

1: Withdrawals before age 59½ may be subject to a 10% additional tax and ordinary income taxes.

2: Tax laws may change at any time and any changes may impact the benefits of Roth IRAs. Traditional IRA account owners should consider the tax ramifications of converting from a traditional IRA to a Roth IRA as well as the age and income restrictions entailed. The converted amount would be generally subject to income tax at then-current rates.

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