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Common IRA Questions

Courtesy of Horizon Wealth Strategies, LLC

The rules for individual retirement accounts can be confusing and I regularly field questions on the subject. Here are answers to a couple of all-too-common questions:

Q: ***I have found that traditional IRA withdrawals add to my income, raising my tax bracket and causing some of my Social Security benefits to be taxed. Is this true also of supposedly tax-free Roth IRA withdrawals?***

A: Tax-free distributions from Roth IRAs are truly tax-free, if taken after five years of the opening of the account. They do not count as income and do not cause any of your other income to become taxable.

Q: ***I work and my husband stays home. Can I make the maximum IRA contribution for him? He says he can contribute only what he would earn from work.***

A: For single people, what your husband says is true. But in the case of married couples who file a joint tax return, both husband and wife can make IRA contributions up to the personal maximum each even if one spouse has little or no earned income. The two IRA contributions added together cannot exceed the couple's combined earned income.

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Amazon will pay you to use gift cards. The new program, Amazon Reload, offers 2% rewards for reloading an Amazon.com gift card. If you currently shop on Amazon, this new program might be worth it. However, you may do better using a standard rewards card for Amazon purchases, depending on the card. And Amazon Prime members can earn 5% back on Amazon purchases with the Amazon Rewards Visa Card or Amazon.com store card.

Source: TechCrunch.com

Beware a new Medicare card scam, warns healthcare advocate Micki Nozaki. In phone calls, scammers posing as Medicare representatives demand your Medicare number plus fees and financial information to get a new card that is meant to reduce ID theft. They claim you risk losing coverage if you don't comply. *Self-defense:* Hang up on the caller. If you currently have a Medicare card, you will receive an official redesigned one automatically.

Source: cahealthadvocates.org

"A tragic irony of life is that we so often achieve success after the chief reason for which we sought it has passed away."
— Ellen Glasgow

Personal Finance 101 for College Kids

By Jill Schlesinger, Tribune Content Agency

As millions of parents send their kids off to college, an important bit of parting wisdom is that these young adults are responsible for their finances and they should act accordingly. Here is a survey of the introductory topics to cover:

Money management: Each family has its own system for managing money, but in my experience the most successful plans start with a realistic budget. Create one with your son or daughter and then discuss what the parental contribution (if any) will be.

Credit and debt: The Credit Card Act of 2009 created new rules regarding credit for those under age 21, which has meant that most college kids are prevented from getting a credit card on their own. If parents want their kids to have a card for an emergency, there are a variety of options.

Debit cards are helpful for budgeting, but they don't help build a credit history, and they can be more of a hassle than credit cards in the event of identity theft or a data breach.

Students can get credit cards in their own names with parents as cosigners, or parents can add a child as an authorized user to their own credit card accounts. Either way, there could be reckless spending, and in the case of cosigning, parents and kids marry their credit histories, for better or worse.

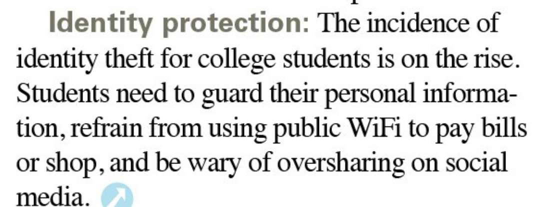
A good compromise is a secured credit card, which limits the liability but establishes a credit history. A secured card requires a cash deposit that becomes the credit line for the account. For example, if you put $500 in the account, the card user can charge up to $500. You may be able to add to the deposit to extend credit, or sometimes a bank will reward you for consistent payments and add to the credit line without requesting additional deposits.

Encourage your child to get into the habit of checking their credit report at the beginning of every academic year. If there is a mistake, notify the credit-reporting agency and stay on top of errors that need to be removed.

Banking: Choose a bank that offers free checking and saving accounts in order avoid fees. Shop around to find an institution with convenient ATMs near campus to eliminate out-of-network charges. This is a great opportunity to explain about balancing accounts, which is much easier these days with online banking. Both students and parents should check the account regularly.

Saving: If your college student is working to help pay the bills, encourage her to save at least 10 percent of earnings, which can go directly into the bank account. Upon graduating, your child may be pleased to find that there is a pile of money available to help pay down student loans or to rent a new apartment.

Identity protection: The incidence of identity theft for college students is on the rise. Students need to guard their personal information, refrain from using public WiFi to pay bills or shop, and be wary of oversharing on social media.



How Do I Handle an Inherited IRA?

By Kimberly Lankford, Kiplinger's Personal Finance

Q: *My mother recently passed away at the age of 60. She had $110,000 in a traditional IRA, and my sister and I are the beneficiaries. The bank said it will have to open an IRA account for each of us and then distribute the $110,000 equally between us. Do we need to keep the money with that bank or can we transfer it to another brokerage firm? Also, when do we need to withdraw the money? I'm 39 years old.*

A: Because you and your sister are non-spouse beneficiaries, the bank will open inherited IRAs for each of you and transfer the money directly into the two accounts (the options are different for spouses who are beneficiaries and can roll the money into their own IRAs). You can keep the IRA at that bank or transfer it to a different IRA custodian, such as a brokerage firm or mutual fund company. Money from an inherited IRA must be directly transferred from the old account to the new one, so check with the new administrator to find out what steps you need to take to do this. "The new IRA custodian must be willing to accept inherited IRAs," says Christine Russell, senior manager of retirement at TD Ameritrade. You may also have to complete special paperwork for the transfer.

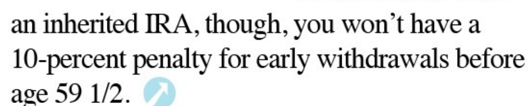
As a non-spouse beneficiary, you have two options for taking the money: You can withdraw all the funds from the inherited IRA within five years, or you can start taking periodic payments by Dec. 31 of the year following the year of your mother's death.

Given that you are only 39, you may be better off taking periodic payments. That's because your required withdrawals will be smaller under this method, so you'll have more money left in the account to grow tax-deferred for years.

The periodic payments for inherited IRAs are similar to required minimum distributions for IRA holders over age 70 1/2, but they use a different life-expectancy table to calculate the annual withdrawals (Table 1 single life-expectancy table, in Appendix B of IRS Publication 590-B, Individual Retirement Arrangements).

Make sure the IRA custodian knows you want the periodic payment option. Otherwise, its IRA documents may require you to withdraw the money within five years, says Russell.

Whichever option you choose for withdrawals, the distributions will be taxable, except for any from nondeductible contributions. With an inherited IRA, though, you won't have a 10-percent penalty for early withdrawals before age 59 1/2.



"The moment you reach the future, it's already in the past. So why should I set money aside to spend yesterday?"

Save on wedding costs: *If you have strong credit, open a cash-back rewards credit card* and charge as much of the wedding costs as you can pay off quickly on the card to get a signing bonus plus points you can use for other wedding-related costs such as travel and hotels. *Look for a venue where you can have both the ceremony and the reception* — that saves on rental cost and also reduces the hours you need a photographer or videographer. *Scale back on food* — more noodles and salads, less meat and seafood, and a simpler cake. *Get nonwedding, easily available flowers* that look pretty but may cost much less than specific types. *Do some things yourself* — possibly favors or a photo booth with selfie sticks. *Put $1,000 into a fund* for last-minute expenses so that you do not run up unexpected credit card bills. *Read all contracts carefully* so that you are not hit with extra charges for which you did not budget.

Source: Bottom Line Personal Magazine

Savings bond savvy: To find out whether your bonds still are paying interest — and whether the government owes you back payments go to the government website, *TreasuryHunt.gov.*

"Money isn't the most important thing in life, but it's reasonably close to oxygen on the 'gotta have it' scale."

— Zig Ziglar

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Stretch Retirement Income with the Bucket System

By Eileen Ambrose, Kiplinger's Personal Finance

A bear market just as you enter retirement couldn't come at a worse time if you're forced to sell securities after prices have plunged. That's where the "bucket system" can help. Basically, you divide your money among different kinds of investments based on when you'll need it. In the book "The Bucket Plan" (Greenleaf Book Group Press), author Jason L. Smith suggests splitting assets among three buckets: "Now," "Soon" and "Later."

The Now bucket holds what you'll need in the short term. Smith recommends setting aside enough so that, when added to Social Security or a pension, it will cover your basic expenses for up to a year. It should also have enough for major expenses that are likely to crop up over the next couple of years, such as paying for a new roof or that once-in-a-lifetime trip around the world, plus cash for unexpected emergencies.

Money in the Soon bucket will be your source of income for the next 10 years. Smith recommends investing in a fixed annuity (not an immediate annuity, which locks you into monthly payments) or high-quality short-term bonds or bond funds. As the Now bucket is depleted, you withdraw money from the annuity or sell some of the fixed-income investments in the Soon bucket to replenish it.

The assets in the Later bucket aren't meant to be tapped for more than a decade into your retirement, so they may be invested more aggressively in the stock market, which provide long-term growth potential. This bucket can also include life insurance or a deferred-income annuity, which pays income later in life. Consider liquidating assets in the Later bucket to replenish the Soon bucket starting about five years before it runs out of money. If the market is in a downward spiral, you can wait, knowing you still have a few years before the Soon bucket will be empty.