

Navigating an IRA

Over the years, individual retirement accounts (IRAs) have become a popular savings option for retirement investors. Their tax advantages and the ability to direct investments are part of their appeal. However, the complex rules governing IRAs often lead to investor misconception and misinformation. The following facts may help with understanding these investments.

You're not limited to one IRA. You can contribute to multiple IRAs — traditional and/or Roth — as long as the total amount you deposit in all IRAs doesn't exceed the maximum annual contribution amount. For 2014, the annual amount is \$5,500 (\$6,500 if you're age 50 or older). Limits don't apply to rollover contributions.

Required minimum distributions (RMDs) can come from a single IRA. You're required to begin taking RMDs from a traditional IRA by April 1 of the year following the year you turn 70½. The amount is based on your life expectancy (per an IRS table) and the balance in each account on December 31 of the previous year. But you don't have to take distributions from every traditional IRA. Instead, you can combine the RMD amounts from each IRA and take the distribution from one (or more) account(s).

You can change IRA custodians. You can move your IRA to another financial institution whenever you wish through a trustee-to-trustee transfer.

Earnings are key to IRA eligibility. Anyone under age 70½ with earned income — including your minor children — can contribute to a traditional IRA. There is no age limit for contributions to a Roth IRA, but income restrictions apply. With both IRA types, contributions may not exceed taxable “compensation.”

Roth IRAs have no minimum distribution requirements. Contributions to a Roth IRA are made after tax and can be withdrawn without tax or penalty at any time. Once certain conditions are met, investment earnings may be withdrawn tax free. Or you can let your account grow income-tax free for your heirs. Your heirs will be required to take RMDs after your death.