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A Grand New Contribution

Despite everything happening in the economy today, it is still important to think about what you can sock away in your individual retirement account. Beginning in 2008 and continuing into 2009, workers can contribute up to $5,000 per year to an IRA, and those aged 50 and older can contribute up to $6,000.

Although these new limits are the only recent development for the IRA, what's most appealing about the IRA has passed the test of time: It still offers a tremendous opportunity for workers of all ages to use the power of tax deferral in pursuit of their long–term savings goals.

Too Low for Too Long

For years, people have complained that the IRA contribution limits are too low. The IRA was created in 1974 with a $1,500 limit that was raised to $2,000 in 1982. In 2001, lawmakers answered the contribution limit complaints with a series of scheduled incremental increases that culminated in 2008. In 2009 and beyond, the IRA contribution limit will be indexed to inflation.

Over a 30–year period, a worker who contributed $5,000 per year to an IRA earning a hypothetical 8% annual return could accumulate an additional $340,000, compared with a worker who contributed just $2,000 per year. This hypothetical example is used for illustrative purposes only. It does not represent any specific investment. Actual results will vary.

Even if you participate in an employer–sponsored retirement plan, you may still be eligible to contribute to a deductible IRA (see table). If you have assets in a former employer's plan, rolling them into an IRA may give you more options and greater control over your money.

Contributions to a traditional IRA are tax deductible (subject to certain income limits), and any earnings in the account are not subject to income tax until withdrawn. IRA withdrawals (also called distributions) are subject to ordinary income tax. Distributions taken prior to age 59½ are subject to an additional 10% federal income tax penalty, except in cases of death, disability, or a first–time home purchase (up to a $10,000 lifetime maximum).

Can I Participate in My Employer's Plan and Have an IRA, Too?

The short answer is "yes." Individuals and married couples with earned income are eligible to contribute to a traditional IRA. However, for employer plan participants, the tax deductibility of IRA contributions begins to phase out according to the following adjusted gross income limits.

MARRIED FILING JOINTLY	SINGLE FILERS	IRA CONTRIBUTION IS:
$85,000 or less	$53,000 or less	Fully deductible
$85,001 to $105,000	$53,001 to $63,000	Partially deductible
$105,001 or more	$63,001 or more	Not deductible

(These limits are for the 2008 tax year.)

Forty-seven million U.S. households own at least one IRA.[1] Does it make sense for you to take advantage of this year's higher contribution limits? For more information and a review of your personal retirement plan, contact **Jason M. Woodward, J.D.** today at (603) 264-7550 or financialattorney@gmail.com.

1) Investment Company Institute, 2006