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# **SENIORS/BOOMERS**

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**Investment Management & Asset Preservation**

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### **Can You Make IRA Contributions after 70 ½?**

Many clients who are over age 70½ ask us if they can still make contributions to their Individual Retirement Accounts (IRAs) — and if so, what the maximum amount they can deposit is. The answer depends upon your individual situation.

You can contribute to a traditional IRA up until the year that you turn 70½, but not after. For example, if you turn 70½ in 2006, you cannot contribute to a traditional IRA after 2005. There is one notable exception. Federal tax rules will allow the rollover of a lump sum, such as a pension payout, into an IRA, even if you are older than 70½. But you'll want to be careful about the way the transfer is handled. If the lump sum is given to you directly, your employer must withhold a portion of the amount distributed to you. For this reason, you should have the money transferred directly from your employer plan to the new IRA.

You can also contribute to a Roth IRA after you reach the age of 70½, as long as you have earned income and your income does not exceed certain limits (AGI phase-outs start at \$95,000 for single taxpayers & \$150,000 for married couples). How much can you contribute? Assuming you're over age 50, and qualify for the "catch up" contribution limit, you may contribute \$5,000. There is an exception: if your earned income (wages or salary from work) is under \$5,000, you may only contribute up to the amount of your earned income.

It's also possible for some investors to convert funds held in a traditional IRA account to a Roth IRA if their Modified Adjusted Gross Income

(MAGI) is less than \$100,000. MAGI includes the Adjusted Gross Income that you report on your tax return, most income from tax-exempt sources such as municipal bond interest, and up to 85% of your social security income less required minimum distributions from retirement accounts.

Although federal and state income taxes are incurred upon the conversion, distributions from your Roth account will not be subject to federal income taxes as long as you are 59½ years of age, and have satisfied a five-year holding period requirement. You should also know that surviving beneficiaries also receive their distributions free of federal income taxes (however, state income taxes might apply in some states). As income distributions from Roth accounts come back to the account owner and beneficiaries free of federal income taxes, they do not affect the income taxes that are sometimes assessed on social security benefits. This can be an important benefit for taxpayers who want to manage their income taxes upon retirement.

It is important to note that partial rollovers into a Roth account can help reduce the income taxes incurred on the conversion. Consider a situation where a taxpayer is holding \$100,000 in a traditional IRA and wants to convert this money to a Roth account. Assuming the taxpayer converts \$20,000 each year for five years, the conversion tax will actually be spread out over a longer period. This can also sometimes prevent the converted funds from being taxed at higher 28-35% federal tax rates.

Roth IRAs can offer some other advantages. In contrast to traditional IRAs, which require you to take required minimum distributions (RMD) after you turn 70½, Roth IRAs don't require the account owner to take RMD at any age. This can be

important for taxpayers who are interested in leaving the Roth account to surviving family.

We can review your investments and help you decide which IRA planning options might be best for you. Just call our office or send in the attached coupon.

### **Fixed Annuity Rate Renewal Time— What Option Should You Choose?**

If you bought a fixed deferred annuity a few years ago, you may be looking at the end of your initial rate guarantee, and the renewal rates could be lower than they were when you first made the investment. Some fixed annuities leave you no options other than accepting the current one-year rate, or transferring

