



# \$avings Account\$

*A monthly savings tip from the American Savings Education Council (ASEC)—June 2013*

## No 401(k)? Saving for Retirement Outside of Work

You may not have a retirement savings plan such as a 401(k) at work, but you can still take advantage of an Individual Retirement Account – and you may even be able to deduct those savings!

Individual retirement accounts (IRAs) were created by the Employee Retirement Income Security Act of 1974 (ERISA) as a way to provide workers who did not have employment-based pensions an opportunity to save for retirement on a tax-deferred basis, and subsequent legislation has expanded their availability. Nonworking spouses can now contribute to an IRA, subject to certain income restrictions, and there's even a nondeductible option called the Roth IRA.

If you don't have a retirement savings plan, such as a pension or 401(k) where you work, your options include:

**Traditional IRAs:** Anyone with earned income can contribute, as well as a non-earning spouse of an earner, under certain conditions. The ability to deduct your contributions from taxes depends on the contributor's income and participation in an employment-based retirement plan. Earnings in these IRAs accrue tax-deferred, and withdrawals after age 59 ½ are taxed as ordinary income. Minimum withdrawals from a traditional IRA must start during the year that you turn age 70 ½.

**Roth IRAs:** This type of IRA offers tax-free investing for retirement: No taxes are paid on investment returns or on withdrawals made after age 59 ½, as long as the Roth IRA has been held for at least five years. Your contributions to a Roth IRA are not tax-deductible, but there are no mandatory withdrawals after age 70 ½ (as there are with traditional IRAs). Certain income limits restrict eligibility for contributing to a Roth IRA.

The current maximum annual contribution to a traditional or Roth IRA is \$5,500 for those under age 50 at the end of 2013. This limit can be split between a traditional and a Roth IRA, but the combined limit is \$5,500. Those age 50 or older before 2013 can make an additional \$1,000 "catch-up" contribution, for a combined annual limit of \$6,500.



You can find additional information about the differences between IRA types [HERE](#).