

Shopping for an Individual Retirement Accounts

MontGuide
200207HR



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Joel B. Schumacher
MSU Extension Economics
Associate Specialist

Keri D. Hayes
MSU Extension
Publications Assistant

Marsha A. Goetting
MSU Extension Family
Economics Specialist

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Evaluating IRAs

1. Tax Advantages
2. Investment Choices
3. Fee Structures
4. Contract Terms



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Types of IRAs

- Traditional
- Roth



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Traditional IRA

- Deductible contributions
- Earnings allowed to grow tax-free



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Traditional IRA

- Distributions:
 - Considered taxable income



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Roth IRA

- **Nondeductible contributions**



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Roth IRA

- **Interest/Earnings:**
 - **Not taxed when withdrawn**



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Roth IRA

- **Distributions:**
 - **Not considered taxable income**



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Contribution Limits

- **2009:**
 - **\$5,000 annually**
 - **Over Age 50**
 - **\$1,000 additional annually**



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Open IRA account

- **Federal Law:**
 - **IRA must be managed by custodian or trustee**



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Custodian or Trustee

- **Banks & Credit Unions**
- **Insurance Companies**



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Custodian or Trustee

- Mutual Fund Companies
- Investment Brokers
- Entity approved by:
 - IRS



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Insurance

\$250,000



- Federal Deposit Insurance Company (FDIC)
- National Credit Union Administration (NCUA)

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Deciding on type of investment

- Meets your level of risk tolerance



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Investment Choices

1. Savings Accounts
2. Certificates of Deposit
3. Mutual Funds



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Investment Choices

4. Stocks
5. Bonds
6. Annuities
7. Precious Metal Assets



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Question

- What is the most popular type of IRA investment?



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Answer:



- Mutual Funds 64%
- Stocks 38%
- Annuities 27%
- Money Market Deposit Account, CD 25%

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Savings Accounts



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Savings Account

- Fixed Interest Rate for a certain time period
- Variable Interest Rate



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Savings Account

- Minimum Account Balance
- Low Risk
- Federally Insured



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Which Savings Account pays the most?

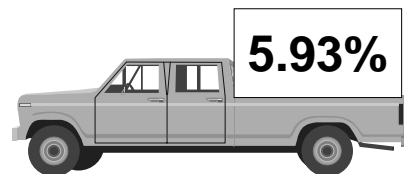
- A. 5.80% compounded quarterly
- B. 5.75 % cp monthly
- C. 5.50% cp daily



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Annual Effective Yield

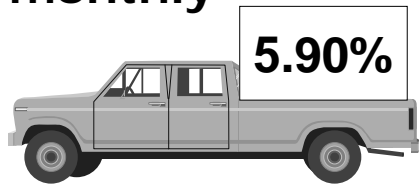
- 5.80% compounded quarterly



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Annual Effective Yield

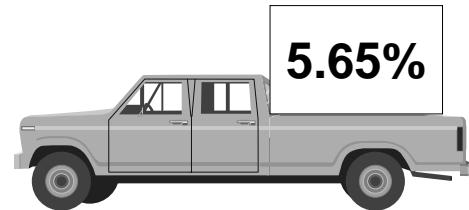
- 5.75% cp monthly



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Annual Effective Yield

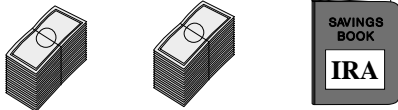
- 5.50% cp daily



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Which account pays most?

- 5.8 % cp quarterly = 5.93
- 5.75 % cp monthly = 5.90
- 5.5 % cp daily = 5.65



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IRA Savings



- \$3,000 / yr 25 years
- 5.93 % = \$162,980
- 5.65 % = \$156,705

\$6,275 difference

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Certificates of Deposit



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Certificates of Deposit

- Fixed Interest Rate for a certain time period
- Maturity periods
 - 30 days
 - 60 days



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Certificates of Deposit

- Minimum Account Balance
- Low Risk
- Federally Insured



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Mutual Funds



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Mutual Funds



- Offers broad range of investment features
- Share represents ownership
 - Pool of investments

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Prospectus



- Provides information about the type of investments

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Mutual Fund Fees

- Charge for managing annually
- Typically 1% value of shares



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Mutual Funds Risk

- No guarantee of specific rate of return
- Not federally insured



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Mutual Funds Risk

- Can lose money:
 - When assets decline in value



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Stocks



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Stocks

- Represent ownership in part of a company



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Stocks

- Rate of Return:
 - Depends on performance of company



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Risk of Stocks

- Business activities of the company
- Not federally insured



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Bonds



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Bonds

- Loan given by investor to:
 - Company
 - Government
 - Other entity



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Bond Yield Rate

- Rate set by issuer:
 - Credit worthiness of issuer
 - Type of bond
 - Current credit market



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Risk of Bonds

- Rate of return is not guaranteed
- Not federally insured



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Annuities



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Annuities

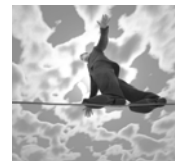
- Offered by insurance companies
- Rate of Return:
 - Fixed
 - Variable



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Risk of Annuities

- Not federally insured



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Security of Annuities

- Related to financial health of company



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Variable Annuities

- Operate like:
 - Mutual Funds
 - Performance & Security are tied to their investments



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Precious Metal Assets



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Precious Metal Assets

- Gold
- Silver
- Palladium
- Platinum
- Coins



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Precious Metal Assets



- Rate of Return:
 - Determined by market conditions

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Precious Metal Assets Risk

- Not federally insured



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Worksheet



- Worksheet page 4
- Use institutions' disclosure sheets to answer
- Then compare

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Summary



- IRAs offer different:
 - Risks
 - Rates of Return
 - Penalties for early withdrawals

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Summary



- IRAs offer different:
 - Fees
 - Maturity Periods
 - Minimum Contribution Limits

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Further Information

- Internal Revenue Service
 - IRS Publication 590
 - www.irs.gov



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Acknowledgements

- Montana Credit Union Network
- Montana Bankers Association
- Montana Society of Certified Public Accountants



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Shopping for an Individual Retirement Accounts

Questions?



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