

Simple Steps to Open an IRA

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Getting started with an individual retirement account (IRA) can seem complicated but it takes just a few simple steps. Years from now, you'll thank yourself for taking the time to make the right investment decisions.



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Key Takeaways

- You can set up an IRA at almost any bank, brokerage, or other financial institution.
- When picking a place for your account, consider the fees and costs attached to the IRA.
- Traditional IRAs and Roth IRAs are the two major types of IRAs available to individual investors.
- There are annual limits to how much you can contribute to a traditional or Roth IRA.¹

Where to Open an IRA

You can set up an IRA at almost any bank, brokerage, or other financial institution. All it takes is your signature on the paperwork and a check for your first contribution.

You can also take care of most of the details online. In fact, online brokerages have eclipsed traditional brokerages to become the primary way people sign up for new accounts. The best brokers for IRAs and Roth IRAs have user-friendly interfaces and valuable informational materials, which makes opening and maintaining an account easier than ever.

Considerations When Choosing an IRA Provider

When picking a place for your account, consider the fees and costs attached to the IRA.

As with any investment, there are trading fees, and they vary widely. You should be wary of gratuitous charges like "maintenance" fees or "custodial" fees.

On the other hand, some companies offer special deals for new accounts. Check whether a custodian you're considering is offering an incentive to get your business.

In addition, consider the options they offer for your investment. Your IRA money can be invested in exchange-traded funds (ETFs), mutual funds, bonds, individual stocks, and many other types of assets. You can choose risky growth funds or slow-growing but stable money market funds. Best of all, you can spread your money around, mixing conservative and aggressive investments.

IMPORTANT: Investments that are less risky in the short term generally have lower long-run returns.

Once you have an account, you'll get the usual quarterly and annual statements, although you can check the progress of your funds online anytime.

You can change your mind about how your money is invested at any point, and you probably should periodically. Investment advisers urge people to take some risks when they're young and get more cautious as they get closer to retirement.

Traditional IRA or Roth IRA?

Traditional IRAs and Roth IRAs are the two major types of IRAs available to individual investors. Small business owners and self-employed people can also open a SIMPLE IRA or a SEP IRA.

The main difference between traditional and Roth IRAs lies in the tax treatment of your contribution.

- Your contribution to a traditional IRA is in pretax dollars. It reduces your taxable income for the year. After retirement, you usually owe taxes on all the money that you withdraw, both the original dollars paid in and the investment income that those dollars earned.
- A Roth IRA requires payment in after-tax dollars. You pay taxes on the income in the year that you make the deposit and therefore get no immediate tax benefit. But after you retire, your entire nest egg is tax-free, including the investment income.²

IRA Contribution Limits

There is a limit to how much you can contribute to a traditional or Roth IRA annually. For 2023, the maximum is \$6,500 a year, rising to \$7,000 for 2024. People aged 50 and over can contribute another \$1,000 as a "catch-up" contribution in both 2023 and 2024. You cannot contribute more than 100% of your employment income.³

Even if one spouse is not employed or has very little income, married couples can invest more. A married couple can jointly contribute twice the individual limit, even if one partner has little or no earned income. Each can also contribute \$1,000 more if aged 50 or over.⁴¹

How to Get Started

Right about now, you may be feeling that you don't have enough time to do this properly. It's easier than you think.

You can probably open an IRA at the bank where you already have an account. Just be sure that the fees are reasonable.

Roth IRAs and traditional IRAs are both excellent choices. The traditional IRA saves you money every tax year during your working years. The Roth means a little more pain upfront for a lot of gain after you retire.²



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Remember, you can always change your investment decisions or even switch providers altogether if you find a better deal.

Best of all, you can set up automated payments to add to your new IRA regularly. That way, you can grow your investments every year and reap long-term financial benefits in the future.

What Are the Contribution Limits for IRAs?

The contribution limit for both a traditional IRA and a Roth IRA is \$6,500 in 2023 and \$7,000 in 2024. If you are age 50 or older, you can contribute an extra \$1,000 for a total of \$7,500 in 2023 and \$8,000 in 2024.²

What Is the Difference Between a Traditional IRA and a Roth IRA?

The difference between a traditional IRA and a Roth IRA has to do with taxes. Traditional IRAs are funded with pretax dollars and are then taxed when withdrawn. Roth IRAs are funded with after-tax dollars and are not taxed when withdrawn.²

Should I Fund a 401(k) or an IRA?

You can fund both a 401(k) and an IRA. 401(k)s are only provided by an employer, so if you are not working for a company, you cannot contribute to a traditional 401(k); however, if you are working for a company, you can fund your 401(k), an IRA, or both. 401(k)s have higher contribution limits and many employers match a percentage of your contributions, which is like free money. As IRAs are not associated with an employer, you do not have matching contributions.

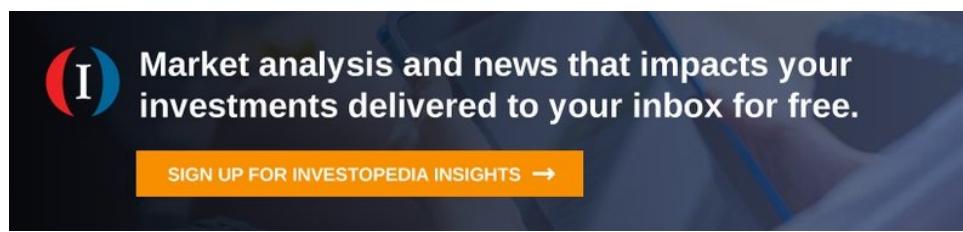
The Bottom Line

IRAs are retirement accounts that can help set you up for a comfortable retirement. Opening up an IRA is a fairly straightforward process that can be done quickly. Choosing between a Roth IRA or a traditional IRA depends on how you want to approach taxes. Either way, as with all retirement accounts, the earlier you start, the better.

Article Sources

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1. Internal Revenue Service. "Retirement Topics - IRA Contribution Limits."
2. Internal Revenue Service. "IRA-Based Plans."
3. Internal Revenue Service. "401(k) Limit Increases to \$23,000 for 2024, IRA Limit Rises to \$7,000."
4. Internal Revenue Service. "Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs)."



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