

10 Things People Don't Know About Their IRAs

Tips for Individual Retirement Account Owners

BY DANA ANSPACH Updated February 26, 2021

Do you know all the ways to get the most out of your IRA? Below are ten things many people don't know about their individual retirement accounts. I bet there's at least one thing on this list that you didn't know.

Depending on your income, and whether or not you have a company sponsored retirement plan through your employer, you may be eligible to make a deductible contribution to an IRA or a regular contribution to a Roth IRA. But did you know if you are not eligible for either of those, you can still make a [non-deductible contribution to an IRA](#) and you may be able to use this strategy to slowly convert IRA assets to a Roth IRA? It's a great strategy for those who do it consistently.

An IRA is not an investment where you competitively shop for the best interest rate like you would a car loan or mortgage. The term IRA represents a set of tax rules that apply to the account and to the underlying investments in it. You can open an IRA at a bank, brokerage firm or with an insurance company. The rate will depend on the type of investments inside the IRA.

What you *can* shop for is a financial adviser that will help you keep the fees associated with your IRA to a minimum while maximizing performance.

IRAs have a low yearly maximum contribution that doesn't allow it to serve as a person's sole source of retirement income so maximizing contributions is key. If you have a non-working spouse did you know that as long as you have enough earned income you can [make a spousal IRA contribution](#) for them? Many couples can tuck away more money into tax-favored accounts by learning about and using the spousal IRA rules. Spousal IRA rules work for Roth IRAs too! This option to make a contribution on behalf of a non-working spouse is often missed. It's a great way for couples to boost their savings.

Much like 401(k) assets, IRA money is protected from many creditor claims. Up to \$1 million of IRA money is protected from bankruptcy under federal law. This protection may not apply to inherited IRA money but will apply to any IRA money from your own contributions and to all balances rolled to an IRA from a 401(k) or other company plan. As a matter of fact, for money rolled to an IRA from a company plan creditor protection can extend beyond \$1 million. Individual state laws determine whether it is protected from other creditor claims. This creditor protection needs to be considered before you [cash out a 401\(k\)](#) to pay down debt.

Many people think if they move money out of their 401(k) plan that they will pay taxes no matter what. This is not true. You can [move old 401\(k\)s into IRAs](#) by using what is called a

rollover or transfer. As long as you do it properly it is not a taxable transaction. This is because you are not making a withdrawal – you are simply transferring money from one tax-deferred account to another.

Consolidating your holdings into one account helps you and your financial adviser keep track of your assets. It's not often possible to consolidate everything into one account but if you have accounts from multiple ex-employers, you can at least consolidate those into a current account.

Think your will has you covered? Think again. Your [IRA beneficiary](#) designation overrides what is in your will or trust. Having a trust and a will is great! You should do it. But you must also go through each account and update any beneficiary designations you have on file. Many people have old accounts that still have an ex named as the beneficiary. In some cases, this may be what you want, but if not, you'll need to get the proper paperwork done to change it. Contact your bank, financial adviser, and/or your company HR department for help.

Yes, you can own [real estate in your IRA](#). That does not mean you necessarily should, but when done properly it is perfectly legal. Real estate in IRAs can lead to some hassles later though, so learn all the pros and cons before you head down this path. If you don't follow the IRS regulations, you can disqualify your entire IRA account with this type of asset. That could be an expensive mistake.

When you reach age 70 ½ you are required to start taking withdrawals from your Traditional IRA and other qualified accounts like 401(k)s. There is a formula that is used each year that determines how much you must withdraw. If you don't take your [required minimum distribution](#) (RMD) a penalty tax applies. RMDs do not apply to Roth IRAs unless you inherit one from a non-spouse; then they do apply.

There is not a special [tax rate that applies to IRA withdrawals](#). The amount of the withdrawal shows up on the first page of your tax return, just like any other source of income. The total of all your income and deductions is what determines your tax rate. Taking more out of your IRA in one calendar year may cause some of your income to be taxed at a higher rate. Although you probably won't avoid all taxes, the key to pay the least possible is to plan early. A financial planner can help with this.

Many 401(k) plans allow you to [transfer IRA money back into the 401\(k\)](#) plan. This is sometimes called a reverse rollover. There are times where such a reverse rollover can make a lot of sense, such as to avoid RMDs if you are still working at 70, to convert non-deductible IRAs to Roth IRAs, or to use low-cost funds if they are offered inside of your 401(k) plan. A creative financial planner can help you explore all the legal options available to you to see if a reverse rollover