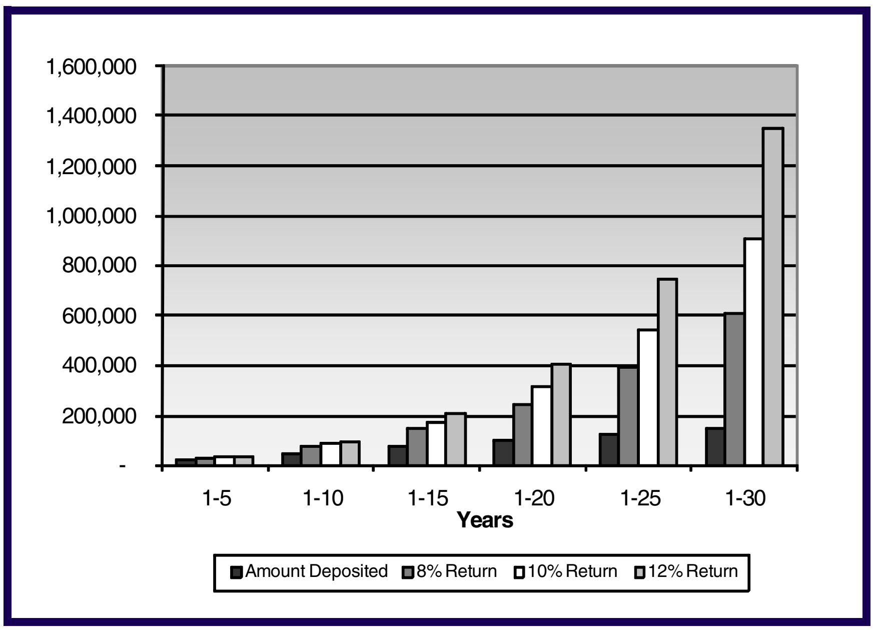
Retirement Planning & Employee Benefits for Financial Planners
4th Edition Updates

CHAPTER 9

Example 9.1, Page 411

The following graphs depict the accumulation over time in an IRA assuming a $5,000 contribution was made to the account at the beginning of each year and without considering the availability of the catch-up contribution and the increase in the limits. Notice that after ten years, $87,656 has accumulated assuming a 10 percent rate of return. After thirty years, over $904,717 has accumulated assuming a 10 percent rate of return.

Years	Amount Deposited	8% Return	10% Return	12% Return
1-5	$25,000	$31,680	$33,578	$35,576
1-10	$50,000	$78,227	$87,656	$98,273
1-15	$75,000	$146,621	$174,749	$208,766
1-20	$100,000	$247,115	$315,012	$403,494
1-25	$125,000	$394,772	$540,909	$746,670
1-30	$150,000	$611,729	$904,717	$1,351,463



Example 9.2, Page 412

A straight deposit equal to $5,000 per year assuming contributions are made at the end of each year at various earning rates for 30 and 40 years are:

Years (N)	Rate (i)	PMT	Amount Deposited	FV
30	8%	$5,000	$150,000	$566,416
30	10%	$5,000	$150,000	$822,470
30	12%	$5,000	$150,000	$1,206,663
40	8%	$5,000	$200,000	$1,295,283
40	10%	$5,000	$200,000	$2,212,963
40	12%	$5,000	$200,000	$3,835,457

Example 9.4, Page 412

Jack, age 48, and Sydney, age 43, have been married for twenty years and are currently retired. Although Jack is currently unemployed, Sydney earns $11,000 from her part-time work at the local market during 2008. Because Sydney has income of $11,000, both Jack and Sydney can contribute up to $5,000 to each of their IRAs in the year 2008.

Example 9.5, Page 413

Jeff, age 54, and Brit, age 52, have been married for twenty years and are planning to retire in six years. Although Jeff is currently unemployed, Brit earns $38,000 from her work at the local school. Brit's income of $38,000 would allow each of them to contribute up to $5,000 to each of their IRAs during 2008. In addition, each of them can contribute an extra $1,000 for 2008 as a catch-up contribution because they are both over age 50. Their total deductible IRA contribution could be as much as $12,000 in 2008. However, this is a separate determination that is analyzed in the following section.

Example 9.7, Page 414

In 2008, Sara, age 32, contributed $5,900 to her IRA. She made an excess contribution of $900 that will be subject to a six percent penalty if she does not withdraw the excess contribution and any related earnings by April 15th of 2009.

Example 9.8, Page 414

In 2008, Sara, age 32, contributed $4,500 to her traditional IRA and $1,500 to her Roth IRA. She has made an excess contribution of $1,000. She can avoid the six percent penalty by withdrawing the excess contribution and any related earnings from either the IRA or the Roth IRA account (or both) by the following April 15th.

Example 9.9, Page 417

Fred is single, age 38, and an active participant in his employer's qualified retirement plan. His AGI for 2008 is $54,000, and he makes the maximum contribution to his traditional IRA.

$$\text{Reduction} = \$5{,}000 \times \frac{\$54{,}000 - \$53{,}000}{\$10{,}000} = \$500$$

Thus, Fred's traditional IRA deduction for 2008 is reduced by $500 to $4,500 ($5,000 - $500).

Example 9.10, Page 417

Assume the same facts as above except that Fred is over the age of 50 and is eligible for the catch-up contribution of $1,000. In this case, the traditional IRA deduction is reduced by $600.

$$\text{Reduction} = \$6{,}000 \times \frac{\$54{,}000 - \$53{,}000}{\$10{,}000} = \$600$$

Thus, Fred's traditional IRA deduction for 2008 is reduced to $5,400 ($6,000 - $600). Notice that the portion that is phased out represents 10 percent of the contribution. Therefore, with the additional $1,000 contribution, only 90 percent or $900 will be deductible ($4,500 + $900 = $5,400).

Example 9.11, Page 417

Rob, age 32, and Sara, age 31, are married and are active participants in qualified plans. They file a joint return and have AGI of $89,000 for 2008. Both Rob and Sara make the maximum contribution to their respective traditional IRAs in 2008.

$$\text{Reduction} = \$5{,}000 \times \frac{\$89{,}000 - \$85{,}000}{20{,}000} = \$1{,}000$$

Thus, Rob and Sara can each deduct $4,000 ($5,000 - $1,000).

Example 9.12, Page 417

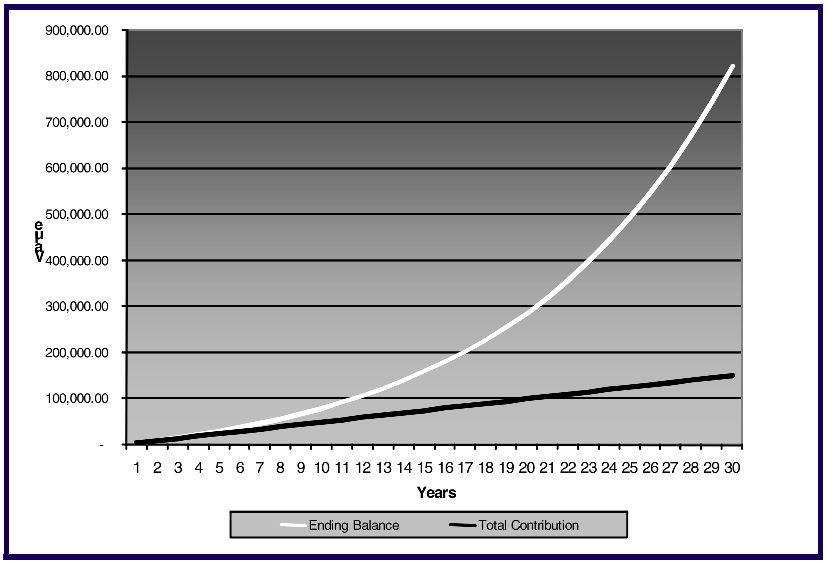
Nick and Kim are married and file jointly. Kim is an attorney who earns $130,000 per year and is an active participant in the firm's qualified plan. She also has portfolio income of $15,000 per year. Nick is unemployed and goes to the bar every day and plays Gin Rummy. Can Nick make a contribution to a traditional IRA and is it deductible? Yes. Nick can contribute because together Kim and Nick have sufficient earned income and the contribution is deductible because their joint AGI for 2008 is less than $159,000. Therefore, Nick can make the maximum contribution (subject to his age) to the IRA for the current year and fully deduct it.

Example 9.18, Page 421

Aaron and Stacey are married and file a joint income tax return. Their joint AGI in 2008 is $125,000. Stacey is a dentist who earns a salary of $80,000 per year, and she defers the maximum to her 401(k) plan. Aaron is a personal trainer earning $45,000 in fees per year. He files a Schedule C with his federal income tax return. Stacey is an active participant in a qualified plan, but Aaron is not. Although he should likely establish a Keogh plan for his self-employment income, he is not currently an active participant. Because their joint AGI is less than $159,000 and he is not an active participant in a qualified plan, Aaron can make a fully deductible traditional IRA contribution. Stacey could make a non-deductible IRA contribution or a contribution to a Roth IRA.

Example 9.20, Page 429

Assume Laura contributes $5,000 per year for 30 years to a Roth IRA earning 10 percent. After 30 years she will have contributed $150,000 but have an account balance of $822,470. The account balance is over five times the amount of the contribution, and all distributions will be tax free (if the distributions are qualified).



Example 9.22, Page 432

Kristi, who is single, contributes $5,000 to her Roth IRA for 2008. However, she receives a significantly larger bonus because of her hard work and dedication to the firm. This unusually large bonus causes her income to exceed $116,000 (the 2008 income limit for contributions to Roth IRAs). As a result, she recharacterizes the contribution to the Roth IRA as a contribution to her traditional IRA. If Kristi is not covered by a qualified plan, she can deduct this contribution on her federal tax return. However, if she is covered by a qualified plan, then she would effectively be making an after-tax contribution to her traditional IRA and would be required to file Form 8606.

Multiple Choice #3, Page 459

3. Robin and Robbie, both age 35, are married and filed a joint return for 2008. Robbie earned a salary of $90,000 in 2008 and is covered by his employer's 401(k) plan. Robbie and Robin earned interest of $20,000 in 2008 from a joint savings account. Robin is not employed, and the couple had no other income. On April 15, 2009, Robbie contributed $5,000 to an IRA for himself and $5,000 to an IRA for Robin. The maximum allowable IRA deduction on the 2008 joint return is:

   a. $1,500.
   b. $5,000.
   c. $4,500.
   d. $10,000.

   The correct answer is b.

   The ability to deduct the IRA contribution depends on the individual's income and whether the individual has a qualified plan. Since Robbie has a qualified plan, they cannot deduct the contribution for him because his income exceeds the AGI phaseout of $85,000 - $105,000 for 2008. Robin, on the other hand, can deduct her contribution because she does not have a qualified plan and their joint income is less than the $159,000 to $169,000 phaseout. Therefore, Robin's deduction is $5,000. She can use Robbie's earned income as her own.

Multiple Choice #4, Page 460

4. Amy, divorced and age 55, received taxable alimony of $50,000 in 2008. In addition, she received $1,800 in earnings from a part-time job. Amy is not covered by a qualified plan. What was the maximum deductible IRA contribution that Amy could have made for 2008?

    a. $1,800.
    b. $2,000.
    c. $5,000.
    d. $6,000.

    The correct answer is d.
    The deductible IRA contribution limit is $5,000 for 2008. The additional catch-up amount, for over age 50, is $1,000 for 2008. Alimony counts as earned income for IRA purposes. She is not covered by a qualified plan and therefore is not subject to AGI phaseouts. Therefore the total is $6,000 for 2008.

Multiple Choice #5, Page 460

5. For the year 2008, Katy (age 35) and Stefen (age 38), a married couple, reported the following items of income:

	Katy	Stefen	Total
Wages	$50,000	--	$50,000
Dividend income	$2,000	$1,200	$3,200
Cash won from lottery		$500	$500
	$52,000	$1,700	$53,700

    Katy is covered by a qualified plan. Stefen does not work and makes wine all day. Assuming a joint return was filed for 2008, what is the maximum tax deductible amount that they can contribute to their IRAs?

    a. $2,500.
    b. $5,000.
    c. $7,500.
    d. $10,000.

    The correct answer is d.
    Because their income is less than the limit for joint income tax filers, they can contribute and deduct $10,000 for 2008.

Multiple Choice #10, Page 462

10. Jack and Jill, both age 43, are married, made $20,000 each, and file a joint tax return. Jill has made a $5,000 contribution to her Traditional IRA account and has made a contribution of $2,000 to a Coverdell Education Savings Account for 2008. What is the most that can be contributed to a Roth IRA for Jack for 2008?

    a. $0.
    b. $2,000.
    c. $5,000.
    d. $10,000.

    The correct answer is c.

    The maximum combined contribution to Traditional and Roth IRAs is $5,000 per person (who has not attained age 50) for 2008. Therefore, Jack and Jill would have a total of $10,000 to allocate between Traditional and Roth IRAs. Jill has already contributed the maximum amount; however, Jack could still contribute $5,000 for himself. The Coverdell Education Savings Account (formerly known as an Education IRA) is not included in the $5,000 limit.

Multiple Choice #11, Page 462

11. Ah and Ha, both age 33, are married, not covered by a qualified plan, and file a joint tax return. They have AGI of $164,000. Ah's mother contributed $2,500 to a Coverdell Education Savings Account for each of their two children. What is the most that Ah and Ha can contribute in total together to a Traditional IRA for 2008?

    a. $0.
    b. $1,000.
    c. $5,000.
    d. $10,000.

    The correct answer is c.

    The maximum contribution to Traditional and Roth IRAs is a total of $5,000 per person (who has not attained age 50) for 2008. However, Ah and Ha may only contribute $2,500 each because their income is half-way between the phaseout limits of $159,000 and $169,000.

Multiple Choice #12, Page 462

12. What is the first year in which a single taxpayer, age 54 in 2008, could receive a qualified distribution from a Roth IRA if he made his first $3,500 contribution to the Roth IRA on April 1, 2009, for the tax year 2008?

    a. 2011.
    b. 2012.
    c. 2013.
    d. 2014.

    The correct answer is c.

    A qualified distribution can only occur after a five-year period has occurred and is made on or after the date on which the owner attains age 59½, made to a beneficiary or the estate of the owner on or after the date of the owner's death, attributable to the owner's being disabled, or for a first-time home purchase. The five-year period begins at the beginning of the taxable year of the initial contribution to a Roth IRA. The five-year period ends on the last day of the individual's fifth consecutive taxable year beginning with the taxable year described in the preceding sentence. Therefore, the first year in which a qualified distribution could occur is 2013.

Multiple Choice #18, Page 464

18. Delores, age 62, single, and retired, receives a defined benefit pension annuity of $1,200 per month from Bertancinni Corporation. She is currently working part time for Deanna's Interior Design and will be paid $18,000 this year (2008). Deanna's Interior has a 401(k) plan, but Delores has made no contribution to the plan and neither will Deanna this year. Can Delores contribute to a traditional IRA or a Roth IRA for the year and what is the maximum contribution?

    a. $5,000 to a traditional IRA or $5,000 to a Roth IRA.
    b. $0 to a traditional IRA or $5,000 to a Roth IRA.
    c. $6,000 to a traditional IRA or $0 to a Roth IRA.
    d. $6,000 to a traditional IRA or $6,000 to a Roth IRA.

    The correct answer is d.

    Delores has earned income and is over 50. She is not covered (technically) by a qualified plan and even if she were, she is below the income limits.