The Oil Drum: Campfire

Discussions about Energy and Our Future

What should we do with funds set aside for retirement?

Posted by Gail the Actuary on March 14, 2010 - 10:55am in The Oil Drum: Campfire
Topic: Miscellaneous
Tags: investment [list all tags]

A lot of us have funds that we have set aside for retirement, perhaps with some matching from employers. Some of these are pre-tax funds that are hard to get to--our employer gives us some investment choices and that is about it. Other funds are ones we have set aside ourselves. The question arises, what should we be doing with these funds?

Within the options available, how should we be investing it? Or should we be taking money out?

Some of us have self-directed Individual Retirement Account (IRA)s, or have saved money outside of IRAs. This gives a little more flexibility.

I am not an expert on this, and would not give advice if I could.

I am sure the rules vary from country to country, so anything that is true in the USA might be different elsewhere. One question that might come up is what are the rules for taking money out of an IRA. This is a short summary I found in that regard.

> You can take money out of an IRA whenever you want, but be warned: if you're under age 59 ½, it could cost you. That's because the government wants to discourage you from raiding your IRA until you're retired. (It's a retirement account, after all.)
>
> If you are under 59 ½: If you withdraw any money from a traditional IRA, you'll be slapped with a 10% penalty on the amount you withdraw. That's in addition to the regular income tax you'll owe on your withdrawal. Bad idea.
>
> Roth IRAs offer a bit more flexibility. Generally, you may withdraw your contributions to a Roth penalty-free at any time for any reason, as long as you don't withdraw any earnings on your investments (as opposed to the amount you put in) or dollars converted from a traditional IRA before age 59 ½. In that case, you'll get hit with that same 10% penalty. Not sure which money is considered a contribution and which is considered earnings? The IRS views withdrawals from a Roth IRA in the following order: your contributions, money converted from traditional IRAs and then earnings. So if you take out more than you've contributed in total, then you're starting to dip into conversion dollars or earnings, and will be penalized and taxed accordingly.
>
> If you're 59 ½ or older: You can usually make penalty-free withdrawals (known as "qualified distributions") from any IRA. But you'll still owe the income tax if it's a traditional IRA. To make qualified distributions from a Roth IRA, you must be at least

> 59½ and it must be at least five years since you first began contributing. And if you converted a regular IRA to a Roth IRA, you can't take out the money penalty-free until at least five years after the conversion.

There are several exceptions to these rules. You can withdraw funds for certain specified purposes without penalty (college expenses, first time home purchase, disability, certain medical expense). According to the same site:

> You can also withdraw money from a traditional IRA and avoid paying the 10% penalty if you roll the money over into another qualified retirement account (such as a Roth IRA) within 60 days. But then you wouldn't actually be able to spend it.
>
> Are you really that desperate for cash? Well, if so, it is possible to take money out of your traditional IRA in what's called "substantially equal periodic payments." Here's how it works: The IRS will determine what amount you can receive each year based on your life expectancy. That's the amount you must withdraw each year.

So what are your thoughts on retirement funds?