



RETIREMENT PLANNING

Traditional vs. Roth IRA

PRESENTED FOR

PRESENTED BY

Page 3 of 10

RETIREMENT PLANNING

IMPORTANT INFORMATION

This information is provided by American General Life Insurance Company (AGL) and The United States Life Insurance Company in the City of New York (US Life), members of American International Group, Inc. (AIG).

The information contained in this document is general in nature and intended for educational purposes only and is not a comprehensive analysis of the topic presented. The information may be subject to change and should be verified for accuracy and reliability (e.g., federal income tax statutes, rulings, etc. that may have changed since publication) and may be subject to differing legal interpretations. While the publisher has been diligent in attempting to provide accurate information, the accuracy of the information cannot be guaranteed. No representation or warranty, express or implied, is made by AGL, US Life and its affiliates as to the completeness of the information in this document. AGL and US Life shall not be liable for any loss or damage caused by the use of, or reliance on, the tax, accounting, legal, investment or financial items contained in this material.

The Company, its financial professionals and other representatives are not authorized to give legal, tax or accounting advice. For advice concerning your situation, consult your professional attorney, tax advisor or accountant.

To ensure compliance with requirements imposed by U.S. Treasury Regulations, we inform you that any tax advice contained in this document (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

©2021. All rights reserved.



PLEASE NOTE

The Consolidated Appropriations Act, 2021 continues through 2021 the temporary CARES Act exception to the 10% early withdrawal penalty for distributions prior to age 59½.



RETIREMENT PLANNING

TRADITIONAL VS. ROTH IRA

IRAs: The Purpose

- ◆ Individual retirement accounts (IRAs) allow income earners—and in certain cases, their unemployed spouses—to save for retirement on a tax-deferred basis.
- ◆ No taxes are due until the IRA owner begins withdrawing funds, typically at retirement (Roth withdrawals may be tax free).
- ◆ An IRA may be either a traditional IRA or a Roth IRA.
- ◆ IRA contributions and earnings accumulate in a trust or custodial account, with a bank, federally insured credit union, savings and loan association, or other organization acting as trustee.
- ◆ Another option is an individual retirement annuity—generally subject to the same requirements, but following rules applying specifically to annuity contracts.

Allowable Contributions

- ◆ Limits on annual contributions are the same for both traditional and Roth IRAs (or a combination of the two) and vary by age, year of contribution and income.
- ◆ In 2021, maximum contributions for IRA owners age 49 and under are \$6,000. For those 50 and older, the maximum is \$7,000.
- ◆ Contributions may not exceed 100% of earned income. For example, a 21-year-old with \$3,500 in total earnings may only contribute up to that amount, not \$6,000.
- ◆ An IRA owner may contribute to an IRA for a spouse who works part time or for a nonworking spouse.
- ◆ Combined yearly IRA contributions for both spouses can't exceed their combined earnings for the year.
- ◆ Roth IRA contributions may be limited based on Modified Adjusted Gross Income (MAGI).



RETIREMENT PLANNING

TRADITIONAL VS. ROTH IRA

The Tax Picture

- ◆ Traditional IRA contributions may be tax deductible, but Roth IRA contributions are not.
- ◆ The maximum deduction in 2021 for a traditional IRA is \$6,000 (\$7,000 for individuals age 50 and over).
- ◆ A traditional IRA is subject to restrictions on who may take full advantage of the deduction. The full deduction is available for wage earners who are not active participants in other qualified retirement plans.
- ◆ For wage earners who are active participants in another retirement arrangement, the deductible amount is gradually phased out according to the person's filing status and AGI. In 2021, the phase-out for single filers begins when AGI reaches \$66,000, and the deduction is lost completely at \$76,000. For married couples filing jointly, the 2021 phase-out amounts are \$105,000 and \$125,000, respectively.
- ◆ Roth IRA contributions are not tax deductible, but no federal income tax is due on distributions, provided certain requirements are met.
- ◆ In 2021, the phase-out reducing the allowable Roth contribution begins when a single filer's AGI is between \$125,000 and \$140,000, and when a joint filer's AGI is between \$198,000 and \$208,000. Single filers with AGI above \$140,000 and joint filers above \$208,000 may not contribute to a Roth IRA.
- ◆ If one spouse is covered by a qualified employer-sponsored retirement plan and the other is not, and their joint income is less than \$198,000, the amount contributed to the non-covered spouse's IRA would be fully deductible. The deduction is phased out if the couple's joint income is between \$198,000 and \$208,000.
- ◆ Participation in another qualified retirement arrangement is not relevant with a Roth IRA. If the Roth IRA owner also owns a traditional IRA, the maximum contribution limit applies to the total contributions to both types of IRAs.



RETIREMENT PLANNING

TRADITIONAL VS. ROTH IRA

Distributions

- ◆ IRA owners may begin taking distributions without tax penalty at age 59½. Earlier distributions are generally subject to a 10% penalty tax on the amount includible in gross income.
- ◆ Exceptions to the 10% penalty include distributions: (1) made when the owner dies or becomes disabled, (2) set up as substantially equal periodic payments within the terms of the law, (3) used to pay for medical care within certain limitations, (4) used to pay for qualified higher education expenses, (5) used to pay for qualifying first-time homebuyer expenses up to \$10,000 lifetime maximum, (6) taken within one year of the birth or adoption of a child to pay related expenses (up to \$5,000 per parent), (7) made to anyone with a principal residence in a federally declared disaster area who suffers a loss as a result of that disaster, or (8) rolled over within 60 days.
- ◆ A traditional IRA requires the owner to begin taking minimum distributions after age 72. Owners who fail to meet the requirement face a 50% penalty tax on the amount that should have been distributed but was not. This doesn't apply to lifetime Roth IRA distributions.
- ◆ Traditional IRA distributions are taxed as ordinary income in the year they are received.
- ◆ IRA owners (including SEP, SIMPLE and Roth IRAs) can make only one "60-day rollover" from one IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs owned. Trustee-to-trustee transfers between IRAs and conversions of traditional IRAs to Roth IRAs are not limited.

The Bottom Line

IRAs offer an effective, tax-advantaged way to save for retirement. Choosing between a traditional IRA and a Roth IRA in specific situations involves such considerations as the individual's age, income and participation in qualified plan arrangements.



RETIREMENT PLANNING

TRADITIONAL VS. ROTH IRA

SUMMARY

WHAT IS AN IRA?

An individual retirement account (IRA) is an account available to people with earned income (and, in some cases, their non-working spouses) to set aside a portion of earnings for retirement.

With a traditional IRA, contributions are tax deductible, and tax is deferred on contributions and earnings until the money is withdrawn (typically at retirement).

With a Roth IRA, contributions are not tax deductible, but distributions are not taxed when withdrawn. Earnings on Roth contributions may also be withdrawn tax free under certain circumstances.

HOW DO IRAS WORK?

The wage earner opens a trust or custodial account with a bank, a credit union, a savings and loan, or a brokerage firm. Another option is to purchase an individual retirement annuity contract.

In 2021, participants in traditional and Roth IRAs are subject to annual contribution limits of \$6,000 for those age 49 and under, and \$7,000 for individuals age 50 and over. The IRS limits contributions to 100% of earned income, if less than the dollar maximums. The IRS also limits contributions for nonworking spouses.

ARE THERE OTHER LIMITATIONS?

Under a Roth IRA, the contribution amount may be limited or phased out depending on AGI and marital status. Under a traditional IRA, participation in an employer-sponsored retirement plan, such as a pension or 401(k) plan, may limit or phase out the deduction, depending on AGI and marital status.



RETIREMENT PLANNING

TRADITIONAL VS. ROTH IRA

HOW ARE IRA DISTRIBUTIONS TAXED?

Distributions from a traditional IRA are taxed as ordinary income to the extent they are attributable to tax-deferred contributions and earnings. Distributions from a Roth IRA are not taxed as long as certain requirements are met, since contributions were made with after-tax dollars. Distributions before age 59½ are subject to a 10% penalty tax unless certain exceptions apply. Traditional IRA owners must begin required minimum distributions at age 72. Failure to take these distributions results in a 50% penalty on any amount that should have been taken but was not. Roth IRA owners face no such requirements.

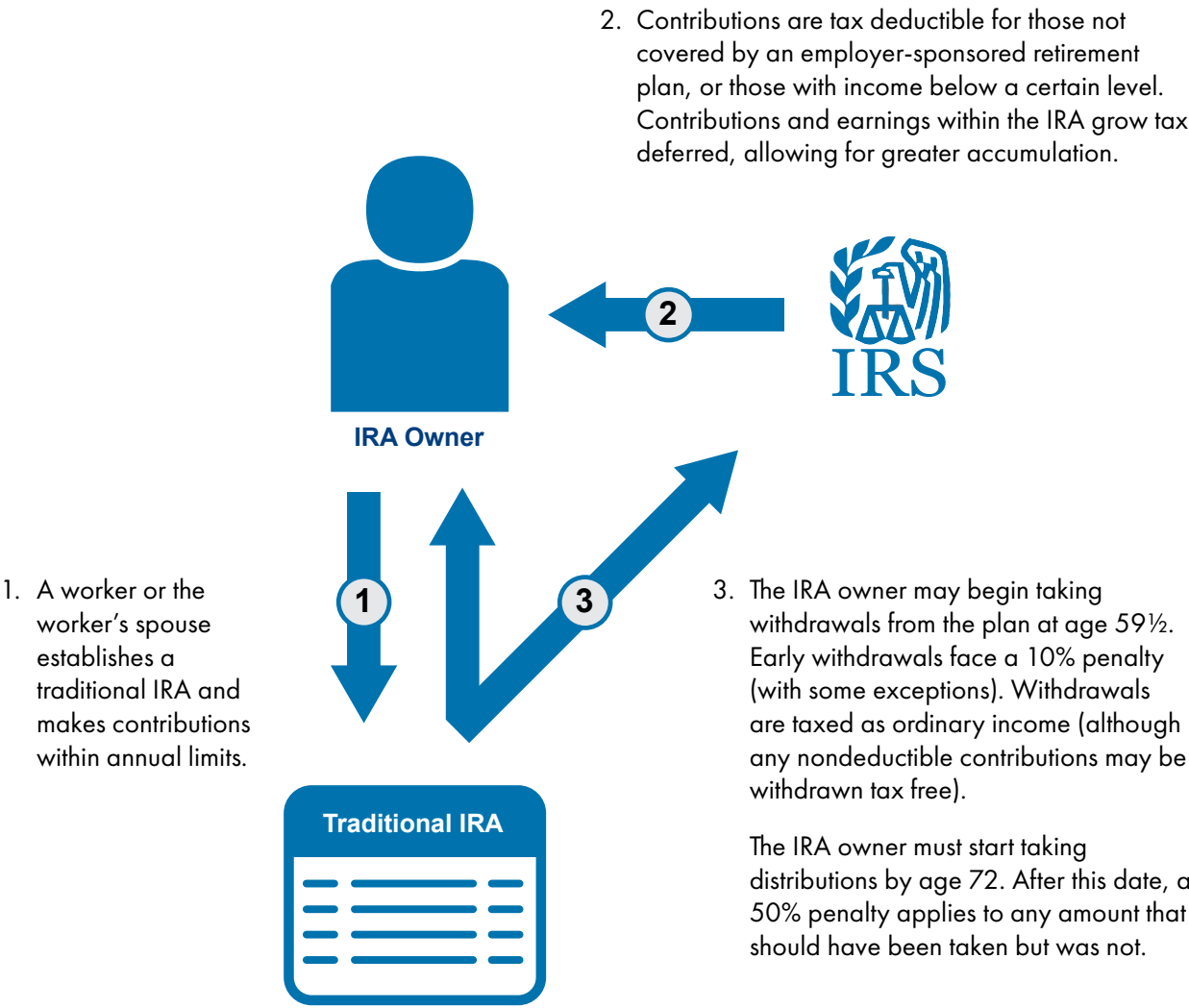
THE BENEFITS: A SUMMARY

- ◆ Retirement benefits for workers and spouses
- ◆ Tax-deductible contributions to traditional IRAs, subject to limits and restrictions
- ◆ Tax-deferred growth for both types of IRAs
- ◆ Tax-free withdrawals from a Roth IRA (unless it is a conversion of a traditional IRA, in which case the 10% premature distribution tax may apply)
- ◆ No required minimum distributions from a Roth IRA during the owner's lifetime



RETIREMENT PLANNING

TRADITIONAL VS. ROTH IRA



HOW A TRADITIONAL IRA WORKS



RETIREMENT PLANNING

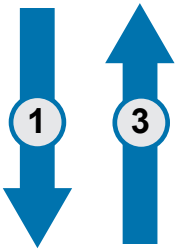
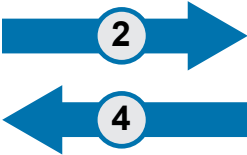
TRADITIONAL VS. ROTH IRA

- 1. A worker with adjusted gross income below a specified amount establishes a Roth IRA and makes contributions within annual limits.



IRA Owner

- 2. Contributions do not qualify for a tax deduction.



- 3. The IRA owner may withdraw contributions at any time without tax. After the owner has had the IRA for at least five years, the owner may also withdraw earnings tax free—but only after age 59½, disability, death, or for qualified first-time homebuyer expenses. Early withdrawals face a 10% penalty (with some exceptions).

- 4. The IRA owner does not face required minimum distributions by age 72.

HOW A ROTH IRA WORKS

