



RETIREMENT PLANNING

Traditional vs. Roth IRA

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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.



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IRA, contributions are tax deductible, and tax is deferred on contributions and earnings until the money is withdrawn (typically at retirement).

With a Roth IRA, contributions are not tax deductible, but distributions are not taxed when withdrawn. Earnings on Roth contributions may also be withdrawn tax free under certain circumstances.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



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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.

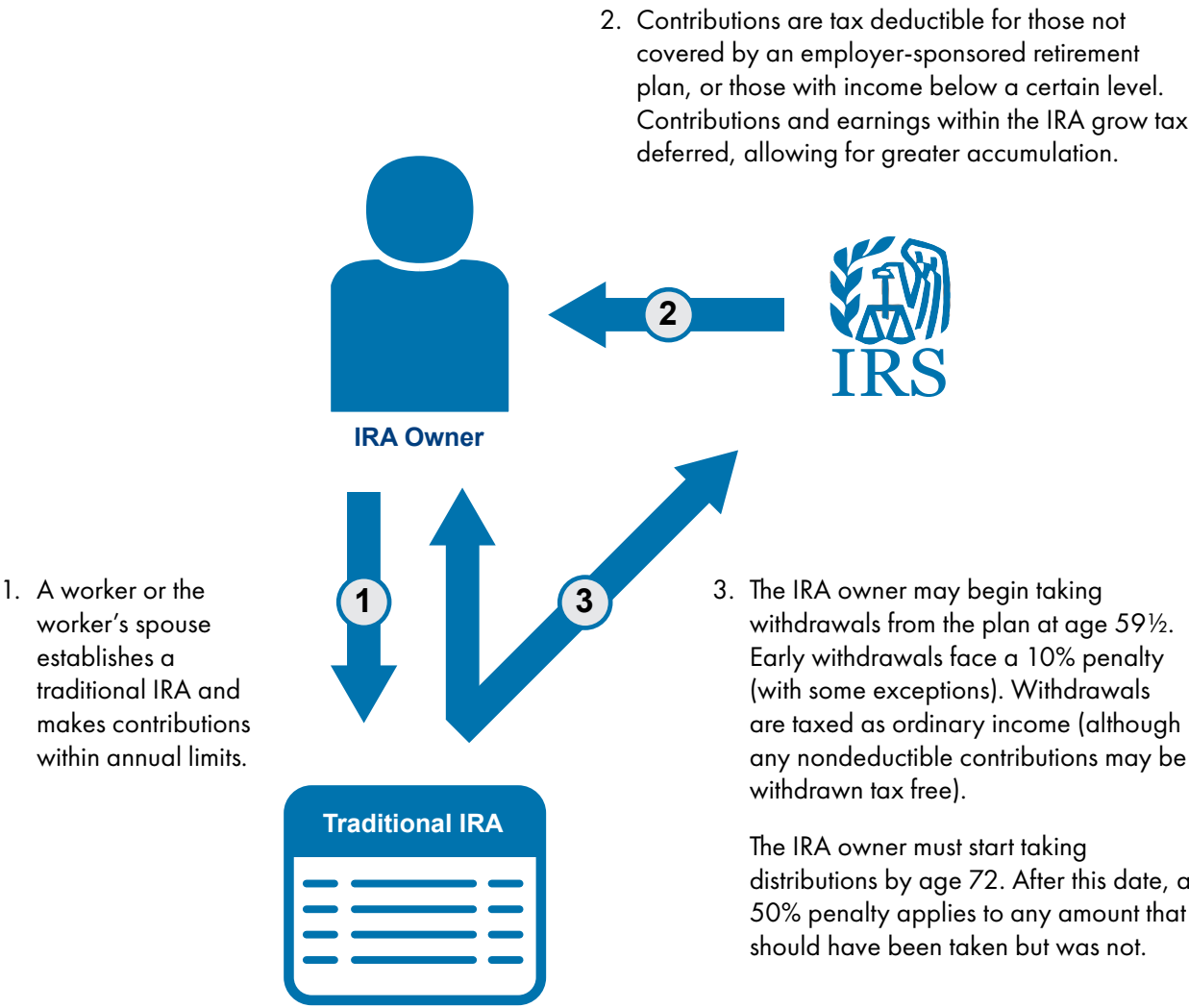
THE BENEFITS: A SUMMARY

- ◆ 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



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HOW A TRADITIONAL IRA WORKS



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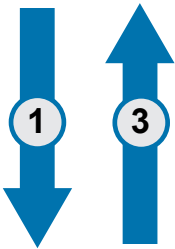
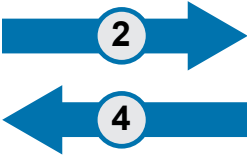
TRADITIONAL VS. ROTH IRA

- 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

