Traditional and Roth IRA Overview

Individual Retirement Accounts (IRAs) allow you to save for retirement and take advantage of tax benefits. Even if you already participate in a retirement plan, such as a 401(k) at work, consider investing in an IRA to help supplement these savings and gain access to a potentially broader array of investments.

There are two main types of IRAs — Traditional and Roth — each with distinct advantages. When analyzing whether a Traditional or Roth IRA is right for you, one of the key decision points is when you want to pay income taxes on your savings.

Traditional IRA — offers *tax-deferred* growth potential. You pay no taxes on any investment earnings until you withdraw or "distribute" the money from your account, presumably in retirement. Additionally, depending on your income, your contribution may be tax deductible. Deferring taxes allows for a potentially greater accumulation of wealth.

Traditional: *Pay taxes later*

With a Traditional IRA your contributions may be tax-deductible and you'll pay taxes when you make distributions in retirement.

Roth IRA — offers *tax-free* growth potential. Investment earnings are distributed tax-free in retirement, provided certain conditions are met. Since contributions are made with after-tax dollars, Roth IRA contributions are not tax deductible, regardless of income.

Roth: *Pay taxes now*

With a Roth IRA you make after-tax contributions, so distributions are tax-free in retirement.

Investment Options

Our firm offers you flexibility when saving for retirement because you can hold a wide variety of investments, such as stocks, bonds, mutual funds, annuities, etc. and access investment guidance through a financial professional. This allows you to diversify your assets and invest based on your risk tolerance, time frame, and personal situation.

Choosing the right IRA

To make the best decision, you must consider such factors as your current and future tax rates, when you will need these funds and for what purpose, estimated account growth, and your access to any other retirement savings vehicles.

2016 and 2017 Traditional and Roth IRA contributions

Maximum contribution (per individual)	Catch-up contribution (if age 50 or older)
$5,500	$1,000

- You or your spouse,[1] if filing jointly, must have earned income to make an IRA contribution.
- Traditional and Roth contributions are aggregated.
- Contributions must be made in cash, check, or money order. Contributions cannot be made in-kind (i.e., securities, property).
- Traditional IRA contributions cannot be made for the year you turn age 70½ or subsequent years.
- Roth contributions are not tax-deductible.
- Roth contributions are allowed after the age of 70½ if you, or your spouse if filing jointly, have earned income. Modified Adjusted Gross Income (MAGI) limits apply.

[1] Spouse means the person lawfully married to the IRA owner or retirement plan participant. The surviving spouse is the spouse remaining or deemed by law to remain alive after the IRA owner or plan participant's death.

Traditional IRA deductibility limits

- Full deduction if you and your spouse, if married, are not covered[2] by an employer-sponsored retirement plan (401(k), 403(b), Gov't 457, SEP, and SIMPLE IRA), regardless of income.
- If you are covered by an employer-sponsored retirement plan[2], the phase-out range for deductibility is as follows:

Single/head of household MAGI		
2016	**2017**	**Deductibility**
Up to $61,000	Up to $62,000	Full deduction
$61,000 up to $71,000	$62,000 up to $72,000	Partial deduction
More than $71,000	More than $72,000	No deduction
Married filing jointly MAGI		
2016	**2017**	**Deductibility**
Up to $98,000	Up to $99,000	Full deduction
$98,000 up to $118,000	$99,000 up to $119,000	Partial deduction
More than $118,000	More than $119,000	No deduction
Married filing separately[3] MAGI		
2016	**2017**	**Deductibility**
Up to $10,000	Up to $10,000	Partial deduction
More than $10,000	More than $10,000	No deduction

- If your spouse (working or nonworking) is not covered by a retirement plan but you are covered[2], the phase-out range for deductibility for the spouse who is not covered is as follows:

Married filing jointly MAGI		
2016	**2017**	**Deductibility**
Up to $184,000	Up to $186,000	Full deduction
$184,000 up to $194,000	$186,000 up to $196,000	Partial deduction
More than $194,000	More than $196,000	No deduction

Did you know …

… you can make a non-deductible contribution to a Traditional IRA even if your income exceeds deduction limits?

Traditional IRA distributions

- Income tax will apply to taxable amounts when distributions are taken.
- Taxable distributions before age 59½ may be subject to an IRS 10% penalty tax.
  - The exceptions to the 10% penalty are for age 59½, death, disability, eligible medical expenses, certain unemployed individuals' health insurance premiums, qualified first-time homebuyer (lifetime maximum $10,000), qualified higher education expenses, Substantially Equal Periodic Payments (SEPP), Roth conversion, qualified reservist distribution, or IRS levy.

CALENDAR

Required Minimum Distributions (RMDs) for Traditional, SEP, and SIMPLE IRAs begin by April 1 the year following the year you turn 70½. After the first year, RMDs must be taken by December 31 of each year.

Roth IRA contribution phase-out limits

- Contributions can be made if you, or your spouse if married filing jointly, have earned income subject to the following limits:

Single/head of household MAGI		
2016	**2017**	**Contribution**
Up to $117,000	Up to $118,000	Full contribution
$117,000 up to $132,000	$118,000 up to $133,000	Partial contribution
More than $132,000	More than $133,000	No contribution
Married filing jointly MAGI		
2016	**2017**	**Contribution**
Up to $184,000	Up to $186,000	Full contribution
$184,000 up to $194,000	$186,000 up to $196,000	Partial contribution
More than $194,000	More than $196,000	No contribution
Married filing separately[3] MAGI		
2016	**2017**	**Contribution**
Up to $10,000	Up to $10,000	Partial contribution
More than $10,000	More than $10,000	No contribution

[2] The "Retirement Plan" box is Box 13 of your W-2 tax form should be checked if you were covered by a retirement plan at work.
[3] Your filing status is considered single for IRA contribution purposes if you did not live with your spouse during the tax year.

Roth IRA distributions rules

Roth IRAs have two types of distributions, qualified and non-qualified distributions.

- *Qualified distributions* are tax-free and penalty-free. Distributions are qualified if the account has been open for at least 5 years **and** you are at least age 59½, or as a result of your death, disability, or using the first-time homebuyer exception.

Did you know …

… Annual Roth contributions can be distributed at any time, tax- and penalty-free?

- There are ordering rules when taking *non-qualified distributions*. All of your Roth IRAs are aggregated when applying the distribution ordering rules.
  - **Contributions come first** — The first amounts distributed from any of your Roth IRAs, if you have several accounts, are considered to be your annual contributions. You can distribute these amounts any time tax- and penalty-free.
  - **Converted dollars are next** — After you have exhausted all of your contributions, the next amounts distributed are from any conversions you have completed. These conversion amounts are distributed tax-free on a first in, first out basis. Converted amounts taken before the five-year holding period, **or** you are age 59½ or older, whichever is first, may have a 10% IRS tax penalty, unless an exception applies.
  - **Earnings are last** — The last amounts distributed from your Roth IRAs are earnings. Earnings taken before the account has been open for at least five years **and** you are age 59½ or older, or for your death, disability, or using the first-time homebuyer exemption, are subject to tax and the 10% IRS tax penalty, unless an exception applies.
- You do not have to take required minimum distributions (RMDs) during your lifetime.

Roth IRA conversion

Converting to a Roth IRA may help you maximize your tax-free wealth-building opportunities. A conversion of after-tax amounts will not be subject to income tax. Any before-tax portion converted will be included in your gross income for the year.

- You can convert your existing Traditional, SEP, and (after two years) SIMPLE IRAs by paying the ordinary income tax (but no penalty).
- Eligible rollover distributions from your employer-sponsored retirement plan can be converted to a Roth IRA.

The deadline to complete a Roth conversion is December 31.

Funding your IRA with your tax refund

Did you know that when you file your tax return you can have the IRS deposit your refund directly into your IRA at our firm? You can accomplish this by using the IRS Tax Form 8888.[4] Form 8888 uses the direct deposit process to transfer your tax refund to any number of IRAs or other saving or checking accounts that you wish. Please note that if you want your refund deposited into only one account, you do not complete this form, but instead can request a direct deposit of your refund on the tax return you are filing.

We will assume the direct deposit received will be for the current calendar year unless your financial professional is notified that you wish to have the deposit designated as a prior year IRA contribution.

Did you know …

… using your tax return to fund your IRA is an easy way to build your retirement savings?

Talk to us

At our firm, we strive to educate our clients on the many facets of investing for their retirement. Please speak with your financial professional for more information about IRAs and retirement planning.

With you every step of the way

Everyone has a different vision of retirement that requires a unique financial strategy. We can support you in your retirement planning process by providing the guidance needed to make more, informed choices. We will meet with you and help create a comprehensive plan that takes into account your complete financial picture. Your financial professional will be with you every step of the way to monitor your progress and adapt your plan as needed. Working together, we'll design and implement an investment plan that can help you live out your unique vision of retirement.

[4] IRS Forms 8888, irs.gov.