

Introduction to IRAs

OVERVIEW OF TRADITIONAL AND ROTH IRAS

Agenda

- Review the different types of IRAs
- Recognize the benefits of having an IRA
- Learn the contribution rules for each IRA type
- Understand the distribution rules for IRAs
- Identify how to move IRA assets

Traditional IRAs

TRADITIONAL IRAS

Overview

- Became available in 1975
- Contributions are discretionary up to the annual limit
- Contributions may be tax deductible (participation in a workplace retirement plan and income may limit deductibility)
- Earnings are tax-deferred, but distributions are generally taxable
- Required minimum distributions (RMDs) must be taken from the IRA upon the owner turning age 73 and beyond

Contributions	Earnings	Distributions
May be deductible	Tax-deferred	Generally taxable
May qualify for tax credit		

TRADITIONAL IRAS

Contributions

- Must have taxable compensation
- Maximum contribution is lesser of
 - IRS limit, or
 - IRA owner's (or spouse's) compensation for the year
- Individuals ages 50 and older allowed additional catch-up contribution

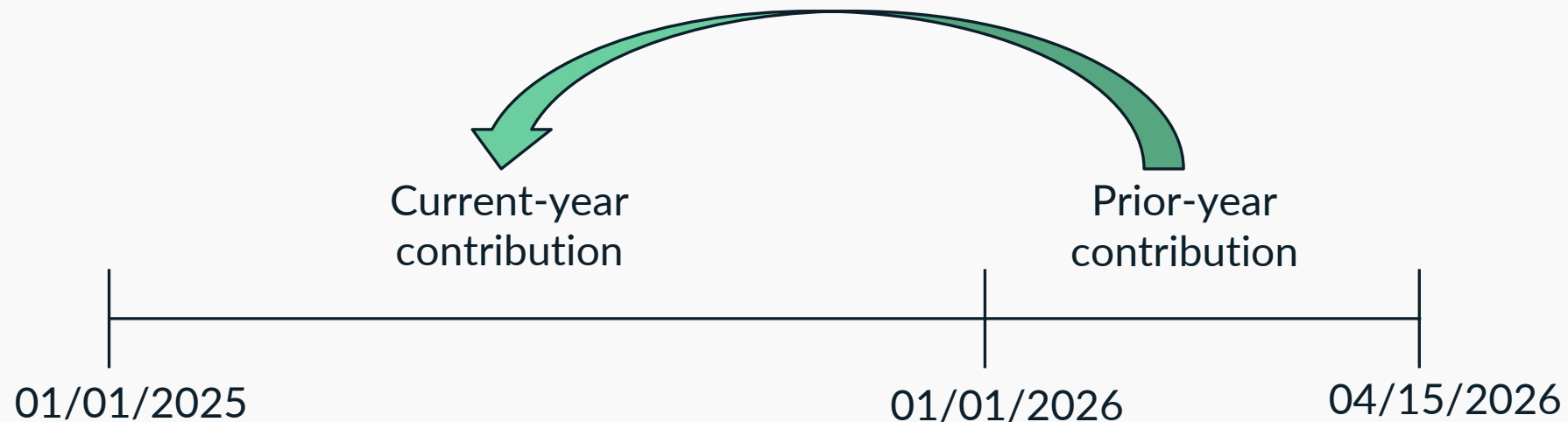
Contribution Year	Regular	Catch-up (age 50 or older)
2026	\$7,500	\$1,100
2025	\$7,000	\$1,000

Note: limit is an aggregate (Traditional & Roth)

Contributions

Deadline: tax return due date, not including extensions (generally April 15)

- If April 15 falls on a Saturday, Sunday, or legal holiday, the deadline is extended to the next business day.



Distributions

< Age 59½

- Taxable (typically)
- 10% penalty (unless an exception applies)

Age 59½ - Age 72

- Taxable (typically)
- No early withdrawal penalty

Age 73 and Older

- Taxable (typically)
- Required minimum distributions (RMDs)

Distributions

Penalty Exceptions

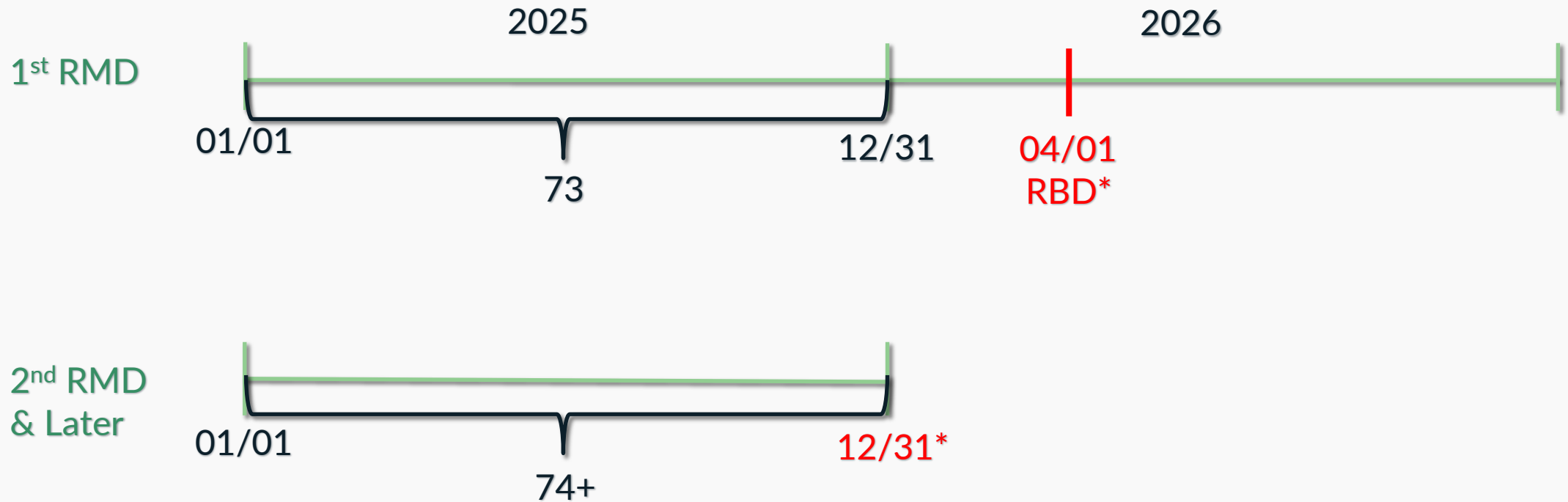
Death	Disability	IRS levy	72(t) payments	First home purchase
Birth or adoption	Higher education	Health insurance for unemployed	Reservist distributions	Unreimbursed medical expenses
Terminal illness	Domestic abuse	Emergency expenses	Federally-declared disasters	

Required Minimum Distributions

IRA Owner Date of Birth	RMD Starting Age
June 30, 1949, or earlier	70½
July 1, 1949 – December 31, 1950	72
January 1, 1951 – December 31, 1959	73
January 1, 1960, and later	75

TRADITIONAL IRAS

Required Minimum Distributions



*up to 25% penalty for failure to take RMD

TRADITIONAL IRAS

RMD Calculation

- Take the previous year's 12/31 balance and divide it by a distribution period
- Find the distribution period using the **Uniform Lifetime Table**
- Use Joint Life and Last Survivor Expectancy Table if
 - ✓ the spouse is the sole beneficiary for the entire year, and
 - ✓ the spouse is more than 10 years younger than the IRA owner

$$\text{RMD} = \frac{\text{12/31 IRA Balance}}{\text{Distribution Period}}$$

Table III
(Uniform Lifetime)

(For Use by:
• Unmarried Owners,
• Married Owners Whose Spouses Aren't More Than 10 Years Younger, and
• Married Owners Whose Spouses Aren't the Sole Beneficiaries of Their IRAs)

Age	Distribution Period	Age	Distribution Period
72	27.4	97	7.8
73	26.5	98	7.3
74	25.5	99	6.8
75	24.6	100	6.4
76	23.7	101	6.0

TRADITIONAL IRAS

RMD Responsibilities

- Your organization must assist with RMD calculations if requested
- The IRA owner is responsible for withdrawing the RMD each year

Roth IRAs

Overview

- Became available in 1998
- Contributions are discretionary up to the annual limit
- Contributions are never tax deductible
- Distributions are potentially tax-free
- No required minimum distributions (RMDs) while the owner is alive

Contributions	Earnings	Distributions
Not deductible	Tax-deferred	Qualified distributions are tax-free
May qualify for tax credit		Nonqualified distributions may be tax free

Contributions

- Must have taxable compensation
 - Maximum contribution is *lesser of*
 - IRS limit, or
 - IRA owner's (or spouse's) compensation for the year
 - Individuals ages 50 and older allowed
- additional catch-up contribution
- May only contribute if IRA owner has modified adjusted gross income (MAGI) within the allowable limits

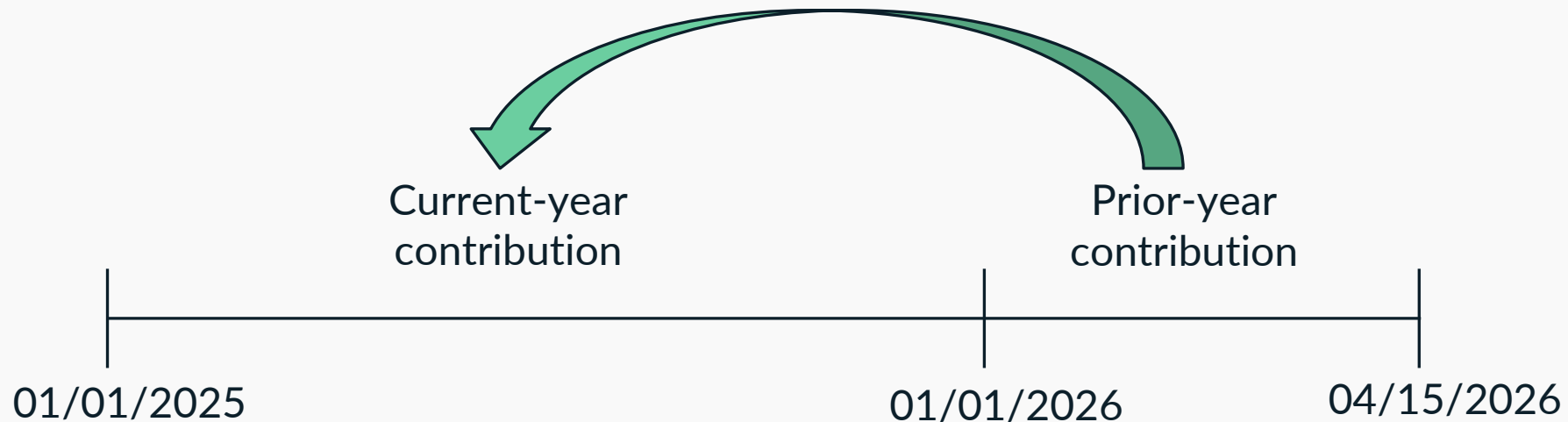
Contribution Year	Regular	Catch-up (age 50 or older)
2026	\$7,500	\$1,100
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Note: limit is an aggregate (Traditional & Roth)

Contributions

Deadline: tax return due date, not including extensions (generally April 15)

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Distributions

- No RMDs while IRA owner is alive
- Qualified distributions = Tax-free
- Nonqualified distributions = May be taxable and subject to an early withdrawal penalty

Qualified Distributions

- Qualified distributions
 - ✓ Tax free AND
 - ✓ Penalty free

Requirement #1: 5 Years
"5-Year Clock" starts Jan. 1 of year *for which* the first contribution was made



Requirement #2: Qualifying Event

Age 59½

Disability

Qualified First-Time Homebuyer

Death

Nonqualified Distributions

Asset Type Ordering Rules	Tax/Penalty Implication
1. Regular Contributions	<ul style="list-style-type: none"> • No tax • No penalty
2. Conversion Contributions*	<ul style="list-style-type: none"> • No taxes • Penalty applies, unless <ul style="list-style-type: none"> ✓ 5 years since completing the conversion, or ✓ Penalty exception applies
3. Earnings	<ul style="list-style-type: none"> • Taxable • Penalty applies, unless penalty exception

* Each conversion has its own 5-year period & includes rollovers from qualified employer plans

Moving IRA Assets

MOVING IRA ASSETS

Overview

- Transfer
- Rollover
- Conversion*
- Recharacterization*

*We will not discuss these transactions in detail during this session

Transfer

- Direct movement from one IRA to another of the same type (not including QRP-to-IRA movements)
- Check payable to the receiving organization (IRA owner may have check in hand)
- Unlimited transfers allowed each year
- Not reportable
- No tax or IRS penalty (may be subject to an investment penalty)
- Can transfer owner's RMD

MOVING IRA ASSETS

Transfer



IRA



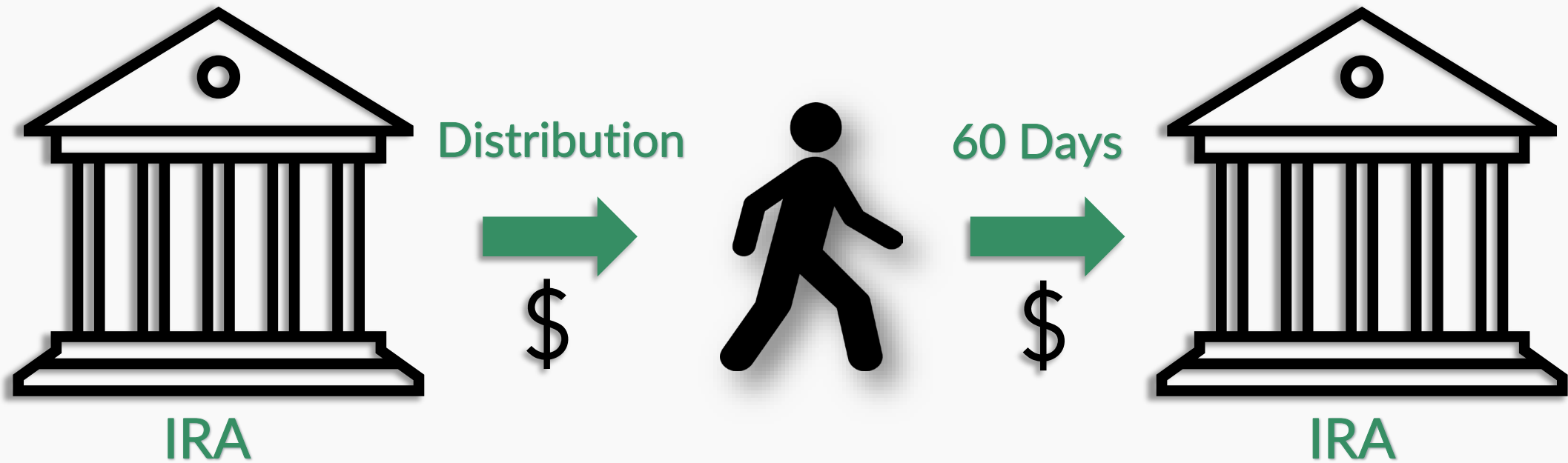
IRA

IRA-to-IRA Rollover

- Distribution to IRA owner
- Check payable to the IRA owner
- 60 days to redeposit assets into an IRA
- 1 rollover per 12-month period
- Reportable
 - ✓ 1099-R reports the initial distribution
 - ✓ 5498 reports the rollover contribution
- No tax if full distribution amount rolled over within 60 days
- Cannot rollover RMD amount

MOVING IRA ASSETS

Rollover



Employer Plan-to-IRA Rollovers

- Direct rollover
 - ✓ Check payable to the receiving IRA, eligible retirement plan (401(k), 403(a), 403(b), governmental 457(b) plan
 - ✓ 1099-R reports the initial distribution
 - ✓ 5498 reports rollover contribution
- In-direct rollover
 - ✓ Check payable to individual
 - ✓ 60 days to complete
 - ✓ 1099-R reports the initial distribution
 - ✓ 5498 reports rollover contribution
- 1 rollover per 12-month period does not apply
- Cannot rollover RMD amount

Summary

- Main differences between Traditional and Roth IRAs
- Contribution rules
- Distribution rules
- Characteristics of a rollover vs. transfer

Questions?



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MONDAY-FRIDAY, 8:00 A.M.-5:00 P.M., CT