

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
- Individuals ages 50 and older allowed \$1,000 catch-up contribution
- Contribution deadline is tax return due date, not including extensions

2024 Contribution Limits*	
Under age 50	\$7,000
Age 50 & Older	\$8,000

*aggregate totals among all Traditional & Roth IRAs

Distributions

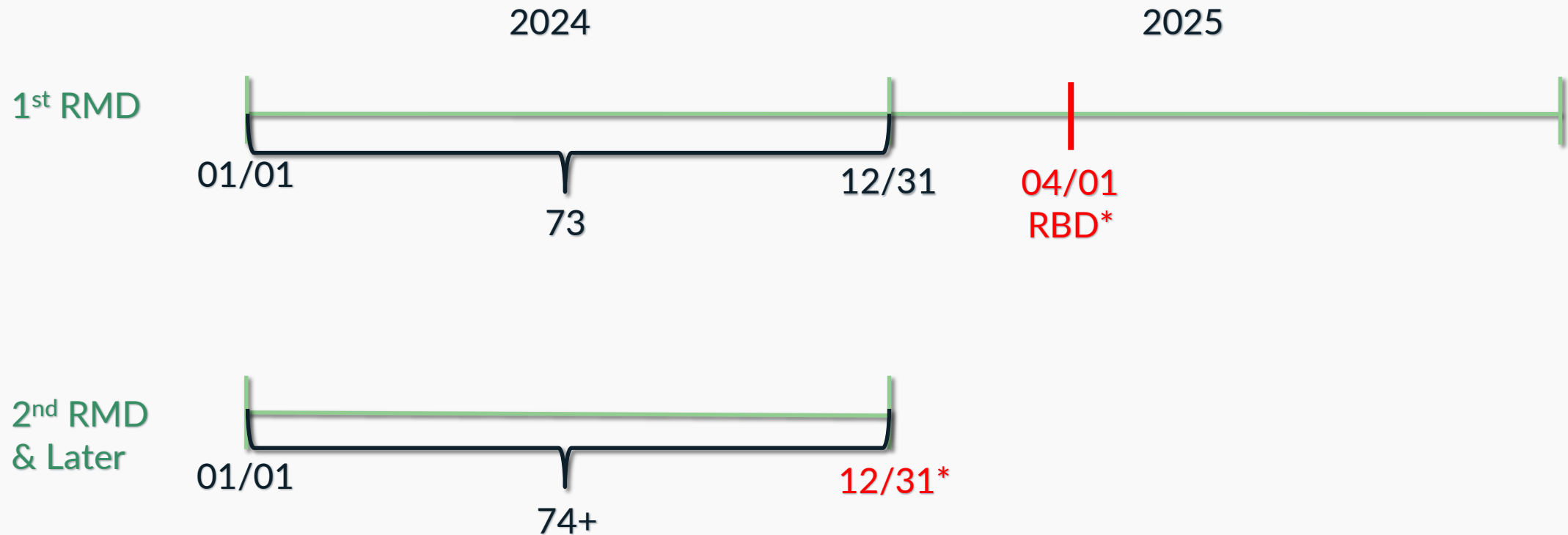
- May withdraw money at any time
- Distributions (generally) subject to taxation as ordinary income
- 10 percent penalty applies to distributions taken before reaching age 59½, unless a penalty exception applies
- Penalty-free distributions allowed at age 59½ or older

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	

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 in 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
- Individuals ages 50 and older allowed \$1,000 catch-up contribution
- Contribution deadline is tax return due date, not including extensions
- May only contribute if IRA owner has modified adjusted gross income (MAGI) within the allowable limits

2024 Contribution Limits*	
Under age 50	\$7,000
Age 50 & Older	\$8,000

*aggregate totals among all Traditional & Roth IRAs

Distributions

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

Qualified Distributions

- Qualified distributions
 - ✓ Tax free AND
 - ✓ Penalty free
- A distribution is qualified if two conditions are satisfied
 1. the assets have satisfied a five-year waiting period
 - ✓ begins January 1 of the year for which the first contribution was made to any of the owner's Roth IRAs,
 2. the IRA owner
 - ✓ attains age 59½,
 - ✓ is disabled,
 - ✓ has died, or
 - ✓ meets a qualified first-time homebuyer distribution exception

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

Moving IRA Assets

MOVING IRA ASSETS

Overview

- Transfer
- Rollover
- Conversion*
- Recharacterization*

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

MOVING IRA ASSETS

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

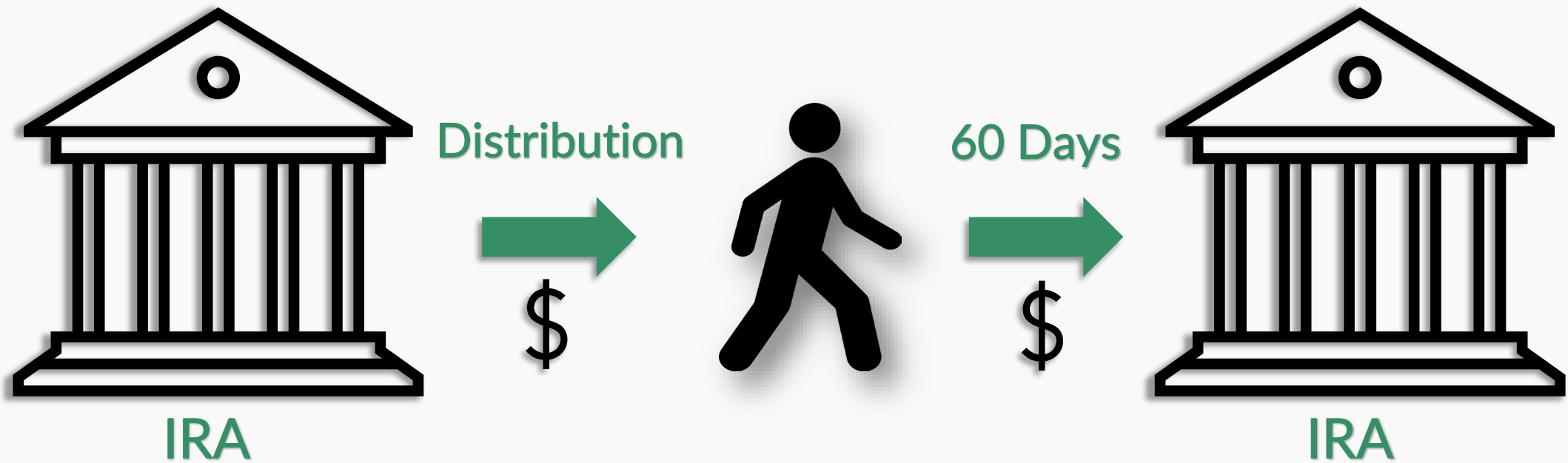
MOVING IRA ASSETS

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 as IRS code G
- In-direct rollover
 - ✓ Check payable to individual
 - ✓ 60 days to complete
 - ✓ 1099-R reports the initial distribution as IRS code 1 or 7
- 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?



CHAT WITH US OR CALL US AT 888.470.4542

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