

## How a Traditional IRA Works



### Account Owner

- Contribution may be tax deductible.<sup>1</sup>
- Total annual contribution is limited.<sup>2</sup>
- Annual contribution limits are coordinated with any Roth IRA.

### IRA Account

- May be opened anytime between January 1 of current year until due date of tax return.
- Earnings accumulate tax deferred.
- Account is usually self-directed (owner controls investments).
- A separate spousal IRA may be established for a spouse with little or no earned income.



### Early Withdrawal

- A 10% penalty applies if withdrawals are made before age 59½.
- Some exceptions to 10% penalty are available.
- Earnings + deductible contributions are taxed as ordinary income in year received.

### Retirement

- Distributions must begin by April 1 of year following year owner reaches age 70½.
- Required minimum distribution rules apply.
- Earnings + deductible contributions are taxed as ordinary income in year received.

### Death

- Value of IRA is included in owner's gross estate.
- Proceeds can pass to surviving spouse, with payments made over survivor's lifetime.
- Income and estate taxes can severely reduce IRA funds left to non-spousal beneficiaries.

<sup>1</sup> If an IRA owner (or spouse) is a participant in an employer-sponsored qualified plan, the deductibility of traditional IRA contributions may be limited, based on income level and filing status.

<sup>2</sup> The maximum annual contribution is the lesser of \$5,000 (\$10,000 for a married couple) or 100% of compensation. For married couples, no more than \$5,000 may be contributed for either spouse. If an IRA owner is age 50 or older, he or she may contribute an additional \$1,000 (\$2,000 if spouse is also over 50).