Roth IRA

What is a Roth IRA?

A Roth IRA is an individual retirement plan (either an account or an annuity) in which contributions are non-deductible but qualified distributions are tax free.

How much can I contribute?

If contributions are made only to Roth IRAs, your contribution limit is generally $5,500 or 100% of your taxable compensation, whichever is lesser. For account owners age 50 or older, the general contribution limit raises to the lesser of $6,500 or 100% of taxable compensation.

For married couples filing jointly, each spouse may contribute up to the maximum amount allowed for individuals into separate IRA accounts, even if one spouse has little or no taxable compensation, provided that their combined taxable compensation is greater than or equal to their total contributions.

Am I eligible to make a full contribution?

Ask your tax professional or check www.irs.gov to determine if you are eligible to make a full contribution based on your Adjusted Gross Income (AGI).

Participation in an employer-sponsored retirement plan does not affect your maximum contributions to an IRA. A Roth IRA allows you to continue making contributions after you reach age 70.5, provided that you still have earned income.

What is the deadline for opening a Roth IRA?

You may open a Roth IRA at any time, but any contributions for a specific year must be made before the due date of that year's tax return, excluding extensions.

When can I withdraw from a Roth IRA?

You can withdraw from a Roth IRA at any time without tax or penalty, provided that the withdrawal is a qualified distribution. A qualified distribution is any payment or distribution from your Roth IRA that meets the following requirements:

- You have participated in the IRA for over 5 years, beginning with the first year the IRA was converted or a contribution was made.
- The payment or distribution is:
  - Made on or after the date you reach 59.5 years of age.
  - Made because you have become disabled.
  - Paid to a beneficiary upon your death.
  - Made to buy, build or rebuild a first home up to $10,000.

A non-qualified distribution, one that does not meet the preceding requirements for a qualified distribution, will be subject to a 10% additional tax penalty unless the distribution meets one or more of the following exceptions:

- You have reached age 59.5.
- You are disabled.
- You are the beneficiary of a deceased IRA owner.
- You use the distribution to buy, build or rebuild a first home up to $10,000.
- The distributions are part of a series of substantially equal payments.
- You have significant unreimbursed medical expenses.
- You are paying medical insurance premiums after losing your job.
- The distributions are not more than your qualified higher education expenses.
- The distribution is a qualified reservist distribution.
- The distribution is due to an IRS levy of the qualified plan.
- The distribution is a qualified disaster recovery assistance distribution.
- The distribution is a qualified recovery assistance distribution.

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IRA Accounts

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Traditional IRA

What is a Traditional IRA?
A Traditional IRA is any IRA that is not a Roth IRA or a SIMPLE IRA in which contributions are generally not taxed until they are distributed.

Do I pay taxes on the earnings?
You are not required to pay taxes on the earnings in the year in which they are accumulated. However, these earnings will be taxed normally when withdrawals are made from the Traditional IRA.

Am I eligible to contribute to a Traditional IRA?
You are eligible to contribute to a Traditional IRA if you are under the age of 70.5 and have received taxable compensation during the year.

How much can I contribute?
Your maximum annual Traditional IRA contribution is $5,500 or 100% of your taxable compensation, whichever is lesser. If you are 50 years of age or older, your maximum contribution increases to the lesser of $6,500 or 100% of your taxable compensation.

For married couples filing jointly, each spouse may contribute up to the maximum amount allowed for individuals into separate IRA accounts, even if one spouse has little or no taxable compensation, provided that their combined taxable compensation is greater than or equal to their total contributions.

What is the deadline for opening a Traditional IRA?
You may open a Traditional IRA at any time, but any contributions for a specific year must be made before the due date of that year's tax return, excluding extensions. Contributions may not be made for the year in which you reach 70.5 years of age or any year thereafter.

How much is deductible from my taxes?
If neither you nor your spouse is covered by an employer-sponsored retirement plan, you can deduct the amount of the contributions to your traditional IRA for the year or the general limit for contributions, whichever is lesser.

If you are covered by a retirement plan at work, you may only be able to deduct a portion of your contributions depending upon your filing status. Ask your tax professional or visit www.irs.gov to find your allowable amount of deduction.

If you are married filing jointly and are not covered by an employer-sponsored retirement plan but your spouse is, your deduction limits will be different. Ask your tax professional or visit www.irs.gov to find your allowable amount of deduction.

When can I withdraw from a Traditional IRA?
You can withdraw funds from your traditional IRA at any time. However, funds withdrawn before you reach the age of 59.5 will be subject to a 10% additional tax unless one or more of the following exceptions apply:

- You have unreimbursed medical expenses that are more than 7.5% of your adjusted gross income.
- The distributions are not more than the cost of your medical insurance.
- You are disabled.
- You are the beneficiary of a deceased IRA owner.
- You are receiving distributions in the form of an annuity.
- The distributions are not more than your qualified higher education expenses.
- You use the distributions to buy, build, or rebuild a first home.
- The distribution is due to an IRS levy of the qualified plan.
- The distribution is a qualified reservist distribution.

Distributions must begin no later than April 1st of the year after you reach 70.5 years of age. If you do not begin receiving minimum distributions by this date, any amount that is not distributed as required may be subject to a 50% excise tax.

How are funds taxed at the time of distribution?
Funds distributed from traditional IRAs are taxable in the year in which you receive them. Some funds may be tax-exempt. Consult your tax preparer.

FAQs

Is my IRA insured?
Yes, IRAs are insured individually by the NCUA for up to $250,000.

Can I convert my Traditional IRA to a Roth IRA?
You may convert your traditional IRA to a Roth IRA without early withdrawal penalties as long as all funds withdrawn from the traditional IRA are contributed (converted) to a Roth IRA within 60 days. Any taxable funds converted must be included as income for the year in which the conversion is made.

If I die, what happens to my IRA?
Your designated beneficiary/beneficiaries will inherit your IRA upon your death. The beneficiary/beneficiaries can then decide the manner in which the IRA is paid or maintained.

Must I contribute every year?
No. You are not required to contribute every year.

How do I open an IRA?
Just come in and talk to us. A University & Community Member Service Representative can go over the benefits of an IRA and explain our investment programs.

Important Note
The information in this document is not intended to give specific advice for individual circumstances. Consult your financial advisor to find the retirement plan to best suit your needs. *All information taken from Publication 590 of the Internal Revenue Service.*