

IRA Accounts Overview

This playbook describes the differences between Traditional IRAs and Roth IRAs, their respective contribution limits, and the tax advantages of each type. It aims to provide a clear understanding for individuals considering these retirement investment options.

Step 1: **Identify Differences**

Understand the fundamental differences between Traditional IRAs and Roth IRAs. Traditional IRAs typically offer tax deductions on contributions and tax-deferred growth, with taxes paid on withdrawal in retirement. Roth IRAs offer no immediate tax deductions, but allow for tax-free growth and withdrawals.

Step 2: **Contribution Limits**

Review the annual contribution limits for both Traditional and Roth IRAs, noting that these limits may change from year to year and can be influenced by age, with additional 'catch-up' contributions allowed for individuals over 50.

Step 3: **Tax Benefits**

Compare the tax benefits of each type. Traditional IRA contributions may lower your taxable income in the year of contribution, potentially resulting in a lower tax bill. Roth IRA contributions do not lower your taxable income, but qualified withdrawals during retirement are tax-free.

General Notes

Eligibility

Consider eligibility requirements for both account types. Income limits may affect your ability to contribute to a Roth IRA, and there may be limitations on deducting Traditional IRA contributions depending on your income and whether you or your spouse are covered by a retirement plan at work.

Early Withdrawal

Understand the penalties and exceptions for early withdrawal from both types of IRAs. Withdrawals before age 59.5 may be subject to penalties and taxes, though there are exceptions such as for certain qualified expenses.

Required Distributions

Note that Traditional IRAs have required minimum distributions (RMDs) starting at age 72, whereas Roth IRAs do not require withdrawals during the owner's lifetime.