IRA Basics

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	Traditional IRA	Roth IRA
Contributing to an IRA		
Contribution Limits	You can contribute • a total of $5,000 to IRAs, including Roth IRAs, • or 100% of earned income if less, • until April 15 of the following year. If you are over 50, you can make additional "catch-up" contributions of $1000.	Same as for Traditional IRA. The amount you can contribute is phased out based on adjusted gross income: • Filing jointly: $167,000 to $177,000.[2] • Single filers: $105,000 to $120,000.[2]
Eligibility	You may contribute to a traditional IRA if you: • are under age 70½, and • have earned income; or your spouse has earned income.	You may contribute to a Roth IRA at any age if you have earned income or are married to a working spouse with earned income. But see the income limits, above.

Tax Benefits	• You can deduct your entire contribution unless you are an *active participant* in an employer retirement plan.[1]
	• If you are an active participant, the deductible amount is phased out based on adjusted gross income (AGI):
	  • Single filers $56,000 -$66,000.
	  • Joint filers $89,000-109,000.
	  • Married filing separately $0 to $9,999.[2]
	• If you are not an active participant but your spouse is, your deductible amount is phased out for AGI from $167,000 to $177,000.
		Roth IRA contributions are never deductible, but distributions from the account may be tax free. See *Taking Distributions*, below, for details.

[1] On your W2 form each year, employers will check "Retirement Plan" in Box 13 for those who are active participants in the employer's retirement plan. Qualifying plans include pension, profit-sharing, 401(K), TSA/403(b), SEP and SIMPLE, government, and some other plans.

Taking Distributions from an IRA		

Taxes	• All distributions are taxed as ordinary income, unless you made non-deductible contributions. If so, that portion of each distribution will not be taxed.
	• Distributions taken before age 59½ will also be subject to a 10% early withdrawal penalty. (See *Exceptions*, below.)
	• Distributions may affect how much of your Social Security is taxable.
		• *Contributions* may be withdrawn at any time without taxes. Distributions are considered to be from contributions first, then earnings.
		• Distributions of *earnings* are tax-free if IRA is held more than 5 years **AND:**
		    • You reach age 59½,
		    • You die or become disabled, or
		    • Money is used for a qualified first-time home purchase. (No home ownership within 2 yrs.; lifetime limit-$10,000).
		• Distributions of earnings may be subject to a 10% early withdrawal penalty. (See *Exceptions*, below.)

Exceptions to 10% Early Withdrawal Penalty	• Death or disability of participant. • Substantially equal periodic payments over owner's life expectancy (>5 years or age 59 ½). • To pay qualified medical expenses over 7.5% of AGI. • To pay health insurance premiums if unemployed over 12 weeks. • Qualified purchase of first home ($10,000 lifetime limit) • To pay qualified college expenses (no limit). • Distribution to pay IRS tax levy.	Same as for Traditional IRA.
Minimum Distributions	• Annual minimum distributions are required beginning at age 70½. The first distribution must be taken by April 1 following the year you reach 70½. • Required Minimum Distributions (RDM) are based on IRS life expectancy tables.	There are no required minimum distributions for the original owner of the account. However, the required minimum distribution [RMD] rule applies to beneficiaries.

Rollovers and Conversions		
Rollovers and Conversions	Money can be "rolled over" from one IRA to another IRA, or transferred from an employer retirement plan into an IRA. • No taxes are withheld and the tax-deferred status of the money is preserved when the money goes directly from one account to the other, called a *trustee-to-trustee transfer*. • If you (the account owner) receives the funds, 20% will be withheld for income taxes. You have 60 days to roll the money over to avoid taxes and penalties. To avoid taxes and penalties, you must deposit the full amount of your old plan into your new account. You will have to replace the 20% that was withheld with money from another source, and wait until you file your income taxes to seek a refund of the amount withheld.	• Money can be "rolled over" from one Roth IRA to another. No taxes are owed on rollovers. • Money from a traditional IRA can be converted to a Roth IRA if modified AGI is less than $100,000 (not including the conversion amount). Partial conversions can be made. Income tax will be owed on all amounts converted, except for amounts representing non-deductible IRA contributions. Beginning in 2010, the income ceiling for conversions is eliminated. • Beginning in 2008, money from an employer retirement plan can be moved directly to a Roth IRA. Until then, it can be rolled over to a traditional IRA and then converted to a Roth.

A traditional IRA may best suit your needs if you:

- Can deduct your IRA contribution and expect to be in a lower tax bracket in retirement.
- Are close to retirement and have a short time horizon before withdrawing funds.
- Cannot contribute to a Roth IRA because of the income limits. You can make non-deductible contributions to a traditional IRA.

A Roth IRA may best suit your needs if you:

- Expect your income tax bracket to stay the same or go up in retirement.
- Are young and a long way from retirement.
- Can't deduct contributions to a traditional IRA, but you meet the income limits for contributions to a Roth.
- Are over age 70½ and have earned income.
- Do not need the money from the minimum distributions a traditional IRA requires after age 70½.
- Don't want your beneficiaries to owe income taxes on the amount in the account left when you die.

For more information on rules pertaining to retirement plans including IRAs, see Taking Distributions from Tax-Deferred Retirement Plans, in the Retirement Planning section of http://www.ace.uiuc.edu/cfe/.

For more information about retirement planning, visit the *Plan Well, Retire Well: Your how-to guide*, at http://www.RetireWell.uiuc.edu.