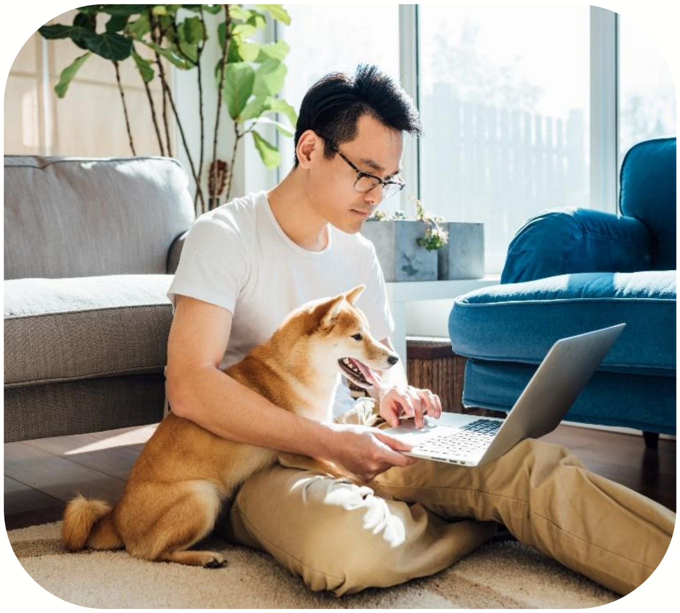
ePAPER

Which IRA is Right for You?

Take Control of Your Financial Future

Individual retirement accounts (IRAs) can be an important component of long-term retirement savings strategies. However, contribution rules, taxes, and withdrawal requirements vary depending on which type of IRA you choose. Understanding these differences can help you determine which account may best complement your overall retirement plan.



What is an IRA?

IRAs are a way that individuals can save for retirement on a tax-free growth or on a tax-deferred basis. Depending on the type of IRA, there is a tax benefit to either when you make contributions or when you withdraw funds. IRAs offer a wide range of investment options such as stocks, bonds, or mutual funds. IRA accounts can supplement pension plans, social security benefits, and savings accounts.

How Does an IRA Work?

Unlike an employer-sponsored retirement plan, such as a 401(k), an IRA is typically opened and managed by an individual through a financial institution or brokerage firm. After opening an account, you can make contributions and select how you would like to invest your money.

Contribution limits, eligibility requirements, taxes, investment earnings, and withdrawals are all governed by the Internal Revenue Service (IRS) rules.

Types of IRAs

There are two main IRA options available: traditional IRAs and Roth IRAs. The key difference is when the potential tax benefit applies.

Traditional IRAs

- Contributions may be tax deductible depending on IRA holders adjusted gross income and other circumstances.
- Earnings grow tax deferred.
- Money contributed and earned is subject to income tax at the time of withdrawal.
- Normal distributions may be made without IRS penalty when IRA holder reaches 59 ½.*
- Withdrawals before 59 ½ are subject to a 10% early distribution penalty (certain exceptions apply).*
- Annual minimum distributions are required when the IRA holder turns 73.

Roth IRAs

- Funded by after-tax dollars; contributions are not initially tax-deductible.
- Earnings grow tax deferred.
- Withdrawals before 59 ½ are subject to a 10% early distribution penalty (certain exceptions apply).*
- Qualified withdrawals of contributions and earnings are tax free.*
- No required minimum distribution regardless of age.

* Certificate withdrawal penalties may apply.

How to Choose Between a Traditional IRA and a Roth IRA

One factor to consider when choosing between a traditional IRA and a Roth IRA is when you prefer to pay taxes on your retirement savings. If you anticipate being in a higher tax bracket in retirement than you are today, a Roth IRA may be worth considering. Since contributions are made with after-tax dollars, qualified withdrawals in retirement are generally tax-free.

On the other hand, If you expect your tax rate to be lower in retirement, a traditional IRA may be more appealing. Depending on your circumstances, contributions may be tax-deductible, allowing you to potentially reduce your taxable income today and pay less tax on the money you withdraw from the account during retirement.

If you expect your tax rate to remain relatively similar, the tax differences between the two accounts may be less significant. Additionally, you do not have to only choose one type of IRA. You can contribute to a traditional IRA and a Roth IRA in the same year. However, your combined contributions to both accounts cannot exceed the annual IRA contribution limit.

Who Can Contribute to an IRA?

To contribute to a traditional or Roth IRA, you must have taxable compensation, such as wages, salaries, tips, commissions, bonuses, or income from self-employment.

Your total contributions generally cannot exceed your taxable compensation or the annual IRA contribution limit, whichever is less. Unlike some retirement accounts, there is no age limit to make contributions to a traditional or Roth IRA.

When Should You Consider an IRA?

You do not have access to a workplace retirement plan.

If your employer does not offer a retirement plan, such as a 401(k) or 403(b), an IRA can provide a tax-advantaged way to save for retirement independently.

You have reached your workplace retirement plan's contribution limit.

Even if you participate in a 401(k) or another workplace retirement plan, you may want to save additional money for retirement. Employer sponsored plans typically offer a specific selection of investment options, whereas an IRA may provide access to a broader range of investments.

You are self-employed or own a small business.

If you are self-employed or own a small business, you may have additional retirement options. For example, a SEP-IRA or SIMPLE IRA allows eligible business owners and self-employed individuals to contribute more toward retirement than they generally could with a traditional or Roth IRA alone.

You want more flexibility in retirement.

Before choosing an IRA, consider your current tax situation, anticipated retirement income, eligibility requirements, and overall retirement strategy. A financial or tax professional can help you evaluate which option may be appropriate for your circumstances.

APCI Federal Credit Union & You

APCI FCU offers Traditional and Roth IRAs with no annual maintenance fees. For further information, please call 800-821- 5104 to speak with one of our Certified IRA Specialists.

- Victoria Fernandes - Ext. 6887
- Ann Strohl - Ext. 6888

Visit the **Retirement** category of our **APCI FYI Blog** for posts about IRAs and other retirement related content.

Informative and interactive calculators can be found on **apcifcu.org**. Our **Retirement calculators** include:

- How much will I need to save for retirement?
- How much will I receive in Social Security?
- I'm retired, how long will my savings last?
- How much can I save with my 401(k)?
- Compare Roth 401(k) and Traditional 401(k) retirement savings plans.
- How much will inflation affect my retirement?