IRAs

What's the Difference?

Traditional IRA – The Traditional IRA is an account that allows you to defer taxes on your earnings until they are withdrawn. In addition, certain contributions are tax deductible in the tax year for which they are made.

Roth IRA – The Roth IRA is a nondeductible account that features tax-free withdrawals for certain distribution reasons after a five-year holding period. Since Roth IRA contributions are nondeductible and taxed in the year they are earned, people who expect to be in a higher tax bracket when they retire may benefit more from these accounts than from a Traditional IRA.

Am I eligible for either account?
Traditional IRA – If you are younger than age 70 1/2 for the entire tax year and have earned income or your spouse has earned income, you are eligible to establish a Traditional IRA.

Roth IRA – There are two requirements for eligibility to contribute to a Roth IRA: you must have earned income or your spouse must have earned income, and your modified adjusted gross income (MAGI) cannot exceed certain prescribed limits. See the table below.

Note: You are eligible to establish a Traditional or Roth IRA even if you already participate in or are receiving contributions from a retirement plan sponsored by your employer which may include certain government plans, tax-sheltered annuities, simplified employee pension (SEP) plans, Savings Incentive Match Plans for Employees of Small Employers (SIMPLE) or qualified plans.

How much can I contribute each year?
Traditional IRA – You may contribute any amount up to 100% of your earned income or $5,500,* whichever is less.

Roth IRA – You may contribute any amount up to 100% of your earned income or $5,500,* whichever is less, as long as your MAGI is within prescribed limits. The prescribed limits are:

Single Filers

MAGI of $112,000 or less Full Contribution	MAGI of $112,000 and $127,000 Partial Contribution	MAGI of $127,000 or more No Contribution

Married, Joint Filers

MAGI of $178,000 or less Full Contribution	MAGI of $178,000 and $188,000 Partial Contribution	MAGI of $188,000 or more No Contribution

Contribution Limits

Tax year 2013 and thereafter $5,500

In addition, at age 50 you may contribute $1,000 in excess of the basic annual contribution for a $6,500 total maximum contribution.

*It's important to realize that $5,500 is the aggregate amount that you can contribute to any Roth and/or traditional IRAs in a given year. For example, if you contribute $500 to a traditional IRA, the most you could contribute to a Roth IRA is $5,500 for that year.

Do I pay taxes on the earnings?
Traditional IRA – Yes. All earnings on your Traditional IRA contributions (deductible and/or nondeductible) remain tax deferred until you make withdrawals from the account. They are then taxed as income in the year they are withdrawn.

Roth IRA – No, provided you withdraw the earnings as part of a qualified distribution. That's the best part of the Roth IRA. When you're ready to take a withdrawal, you pay no taxes on any of the earnings that your money has generated.

Note: A qualified distribution occurs when Roth IRA earnings are distributed after the five-year holding period has been met, and distributions are taken for any of the following reasons: after reaching age 59 1/2, permanent disability, a first-time home purchase, or in the event of your death, higher education expense, medical expenses or health insurance premiums.

A nonqualified distribution occurs when Roth IRA earnings are distributed before the five-year holding period has been met and/or taken for reasons other than qualified reasons. Nonqualified distributions will be subject to tax.

When can I withdraw funds without incurring the IRS 10% premature-distribution penalty?
Traditional IRA – You can withdraw funds from your Traditional IRA without incurring the IRS 10% premature-distribution penalty any time after you reach age 59 1/2. You can avoid the penalty before age 59 1/2 for the following reasons: disability, substantially equal periodic payments, medical expenses in excess of 7.5% of your adjusted gross income, health care insurance if you've been receiving unemployment compensation for at least 12 weeks, distributions paid directly to the IRS due to an IRS levy, conversion to a Roth IRA, recharacterization, direct rollover to a qualified plan, qualified higher education expenses or a first-time home purchase.

Roth IRA – The IRS 10% premature distribution penalty does not apply before age 59 1/2 for the withdrawal of earnings or for converted assets withdrawn within five years of the conversion for the following reasons: disability, substantially equal periodic payments, medical expenses in excess of 7.5% of your adjusted gross income, health care insurance if you've been receiving unemployment compensation for at least 12 weeks, distributions paid directly to the IRS due to an IRS levy, recharacterization, qualified higher education expenses or a first-time home purchase.

Note: Distributions of regular and spousal Roth contribution amounts are always free of IRS penalty regardless of timing or reason.

How are funds taxed at distribution?
Traditional IRA – If you are over age 59 1/2, the taxable portion of the amount withdrawn is treated as income (generally, deductible contributions and all earnings). The nondeductible portion of the distribution is not taxable when withdrawn.

Roth IRA – Qualified distributions of earnings from a Roth IRA are not subject to federal income taxes, however state taxes may apply. Nonqualified distributions of earnings are subject to tax. Note: Since regular and spousal Roth contributions are nondeductible and converted assets are fully taxable in the year of conversion, these distributions are not treated as income.