How a Traditional IRA Works

Account Owner

- Contribution may be tax deductible.[1]
- Total annual contribution is limited.[2]
- Annual contribution limits are coordinated with any Roth IRA.

IRA ACCOUNT

- May be opened anytime between January 1 of current year until due date of tax return.
- Earnings accumulate tax deferred.
- Account is usually self-directed (owner controls investments)
- A separate spousal IRA may be established for a spouse with little or no earned income.

EARLY WITHDRAWAL

- A 10% penalty applies if withdrawals are made before age 59½.
- Some exceptions to 10% penalty are available.
- Earnings + deductible contributions are taxed as ordinary income in year received.

RETIREMENT

- Distributions must begin by April 1 of year following year owner reaches age 73.[3]
- Required minimum distribution rules apply.
- Earnings + deductible contributions are taxed as ordinary income in year received.

DEATH

- Value of IRA is included in owner's gross estate.
- Proceeds can pass to beneficiaries with payments made over varying time periods.
- Income and estate taxes can severely reduce IRA funds left to non-spousal beneficiaries.

[1] If an IRA owner (or spouse) is a participant in an employer-sponsored qualified plan, the deductibility of traditional IRA contributions may be limited, based on income level and filing status.

[2] For 2023, the maximum annual contribution is the lesser of $6,500 ($13,000 for a married couple) or 100% of compensation. For married couples, no more than $6,500 may be contributed for either spouse. If an IRA owner is age 50 or older, he or she may contribute an additional $1,000 ($2,000 if the spouse is also age 50 or older).

[3] Under the SECURE 2.0 Act of 2022, the age to begin RMDs increases to (1) age 73 for those who turn 72 after 2022 and 73 before 2033; and (2) to age 75 for those who turn 74 after 2032. Previously, age 72 was the mandated age to begin RMDs.

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Presented by Chris Swenson