

# How a Traditional IRA Works



## Account Owner

- Contribution may be tax deductible.<sup>1</sup>
- Total annual contribution is limited.<sup>2</sup>
- 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.<sup>3</sup>
- 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.

<sup>1</sup> 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.

<sup>2</sup> For 2026, the maximum annual contribution is the lesser of \$7,500 (\$15,000 for a married couple) or 100% of compensation. For married couples, no more than \$7,500 may be contributed for either spouse. If an IRA owner is age 50 or older, he or she may contribute an additional \$1,100 (\$2,200 if the spouse is also age 50 or older).

<sup>3</sup> Under current regulations, the age to begin RMDs increases after 2022 to: (1) age 73 for those born from 1951 to 1959; and (2) to age 75 for those born after 1959. Previously, age 72 was the mandated age to begin RMDs.

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