individual retirement accounts (IRAs)
our purpose

To lead and inspire actions that improve financial readiness for the military and local community.
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the basics of IRAs

what does retirement look like to you?

Spending your days on the golf course or reading at the beach? Or starting a new business that uses the skills you’ve acquired during your career? Retirement comes in many different forms for just as many different people — but achieving your goals tomorrow also depends on what you do right now. An Individual Retirement Account (IRA) is one way you can help plan for your future no matter how you may envision it.
An IRA is a personal retirement savings plan available to anyone who receives ‘taxable compensation’, such as wages, salary, tips, bonuses and similar income, during the year. These tax-advantaged accounts can hold many different types of investments such as stocks, bonds, mutual funds, annuities, certificates of deposit (CDs) and more, potentially growing to provide a steady stream of income when you retire.

There are several types of IRAs but two of the most popular are the traditional IRA and Roth IRA — both are tax-advantaged plans that allow you to invest each year for retirement. The main distinction is when you pay taxes on the money you put into the plans. With a traditional IRA, you typically pay the taxes on the back end or when you withdraw the funds. A Roth IRA requires taxes to be paid up front on all contributions but there are typically no taxes due at the time you distribute or take funds out. There are other parameters for eligibility as well as when you can make withdrawals so always consult your financial advisor for details specific to your situation and goals.

Traditional IRA
• You may be able to deduct your contribution from your taxable income, thereby reducing your current federal income taxes.
• This depends on your income and if you are covered by a retirement plan at work.
• While your money grows, taxes are deferred. You aren’t subject to ordinary federal income taxes until you withdraw the money, generally at retirement.

Roth IRA
• You cannot deduct your contribution from your income for federal income tax purposes.
• Qualified withdrawals of earnings are free of federal income tax.
• If you withdraw earnings before the account has been open at least 5 years or before 59½ years of age, you are generally subject to federal income taxes and a 10% penalty on the amount of earnings withdrawn.
Almost anyone under age 70½, as long as their earned income for the year equals or exceeds the amount of their contribution, can open and contribute to a traditional IRA. Married? You can each contribute, even if only one person has an income, as long as the working spouse’s earned income is enough to cover the contributions for both. Note: Requirements for whether your contributions are tax-deductible will depend on several factors including income so always consult your tax preparer for full details.

Contributions to Roth IRAs are made with after-tax income so these may be withdrawn free of federal income tax at any time. That makes the investment inside a Roth IRA “liquid,” or more easily accessible (although it may be subject to market fluctuations).

Your modified adjusted gross income (MAGI) is an essential figure for determining if you are able to use certain features of a traditional IRA and whether you are eligible to contribute to a Roth IRA. Your adjusted gross income (AGI) is your total income less certain adjustments; your modified AGI (MAGI) adds back certain income exclusions and deductions. See IRS Publication 590, Individual Retirement Arrangements (IRAs) for information on calculating your MAGI. It’s really important to calculate this figure in order to determine which IRA is right for you.
basic terms & abbreviations

AGI (Adjusted gross income)
Includes your earnings or other forms of income, minus certain “adjustments” such as alimony, moving expenses, deductible retirement plan contributions, and other deductions.

Annual contribution limits
The amount of money per year you can contribute to your IRA.

Contributions
The money you put into your IRA each year based on the type of IRA you have and other factors unique to your financial situation.

Distributions
Also known as withdrawals, the monies you take out from your IRA that may or may not be subject to taxation depending on which type of IRA you have.

IRA
Individual retirement account that can hold different types of investments — as opposed to being an actual investment — such as stocks, bonds, and mutual funds and acts like a savings account with certain tax advantages during the time prior to withdrawals (at retirement).

Earnings
The money or interest earned from your IRA, separate from your contributions.

MAGIC (Modified AGI)
Your income reconfigured with the addition of certain income exclusions and deductions.

Qualified Distribution
This pertains to a specific type of IRA (Roth) and describes whether a withdrawal is subject to taxation or not depending on guidelines for these types of accounts.

Rollover IRA
A transfer of funds from another retirement account to a traditional or other IRA.

Roth IRA
This type of IRA requires payment of taxes on all money invested — after-tax contribution — but doesn’t impose taxes at the time monies are withdrawn providing these are made within the specified parameters.

TSP (Thrift Savings Plan)
A government-sponsored savings vehicle generally available to servicemembers.
true or false?

Both a traditional IRA and Roth IRA include mandatory withdrawal requirements.

False!

Only a traditional IRA stipulates that you must withdraw funds by age 70½ — a Roth IRA has no such stipulation.

Important: non spouse beneficiaries of an inherited Roth IRA are still subject to Required Minimum Distribution (RMD), just like a traditional beneficiary IRA. The RMD must be taken by 12/31 of the year after the year of the original owner’s death.
There are a number of differences between these and other retirement accounts and it’s important to know the distinctions as well as the most current regulations so you can make the right savings choice for your goals.

TRADITIONAL IRA

• You may add funds (annual contribution) to your traditional IRA any time prior to 70½ years of age, as long as you (or your spouse, if you file a joint tax return) earned enough to cover the year’s contributions.
• You may be able to deduct your contribution from your taxable income, depending on your MAGI, thus reducing current federal income taxes.
• While your money grows, federal income taxes are deferred.

ROTH IRA

• You may add funds (annual contribution) to your Roth IRA any time, as long as you (or your spouse, if you file a joint tax return) earned enough to cover the year’s contributions.
• Contributions to a Roth IRA are made with after-tax income, so you can withdraw your contributions at any time without penalty or federal income tax.
• Congress has limited who can contribute to a Roth IRA based upon income.
• Qualified withdrawals of earnings are federal income tax free and penalty free if held for 5 years and withdrawn after 59½ years of age.

Tax diversification

Diversification is a cornerstone of asset allocation. It is important to apply that same prudent thinking to retirement assets and account types. Contributing or converting assets to a Roth IRA will provide you with greater flexibility during the distribution phase of retirement. Diversifying with a Roth IRA will help mitigate the risk of an uncertain tax environment in the future. Naturally, how much to allocate to a Roth account is based on your unique needs, and no discussion of tax diversification is complete without addressing how the tax-free nature of Roth accounts will affect your overall asset allocation.

Annual contribution to traditional or Roth IRA

• For 2017, the contribution limit for those under 50 years of age is $5,500. For those 50 years of age and over, it is $6,500 ($5,500 normal contribution and $1,000 catch-up contribution).
• Contributions must generally be made by the due date for filing your federal income tax return — typically April 15th — not including any extensions.
• You should typically take advantage of company-sponsored retirement plans that offer matching contributions before contributing funds to an IRA.
• You may have a variety of investments within your IRA such as stocks, bonds, mutual funds, annuities or certificates of deposit (CDs).
• If you contribute more than the designated limit there will be a tax on the excess IRA contributions not withdrawn (together with its earnings) by the date your tax return for the year is due. Excess contributions are taxed at 6% per year as long as the excess amounts remain in the IRA. Earnings attributed to the excess contribution are reportable income and may be subject to the 10% tax on premature distributions.
# Comparing Traditional vs. Roth IRAs

## Traditional IRA

| **Who May Contribute** | All workers under 70½ years of age by the end of the calendar year.  
  **Spousal IRA** — spouses under 70½ years of age by the end of the calendar year if tax filing status is married, filing jointly. |
|------------------------|-------------------------------------------------------------------------------------------------------------------------|
| **2017 Contribution Limits** | **Individual**: $5,500  
  **Married filing jointly**: $11,000 (up to $5,500 each) |
| **2017 Catch-Up Contribution** | If you are 50 years of age or older by December 31, you may make an additional contribution of $1,000 per individual. |
| **2017 Combined Contribution** | • If you are under 50 years of age, the smaller of $5,500 or the amount of your taxable compensation can be split between a traditional IRA and a Roth IRA.  
  • If you are 50 years of age or older, the smaller of $6,500 or the amount of your taxable compensation can be split between a traditional IRA and a Roth IRA.  
  • The maximum deductible contribution to a traditional IRA and the maximum contribution to a Roth IRA may be reduced depending on your MAGI. |

## Roth IRA

<table>
<thead>
<tr>
<th><strong>Who May Contribute</strong></th>
<th>No age limit; however for 2017, if filing single, head of household or married filing separately and you did not live with your spouse at any time in 2017, contributions are phased out for modified adjusted gross income (MAGI) from $117,000 to $132,000. If married and filing jointly or qualified widow(er), contributions are phased out for MAGI from $184,000 to $194,000.</th>
</tr>
</thead>
</table>
| **2017 Contribution Limits** | **Individual**: $5,500  
  **Married filing jointly**: $11,000 (up to $5,500 each) |
| **2017 Catch-Up Contribution** | If you are age 50 or older by December 31, you may make an additional contribution of $1,000 per individual. |
| **2017 Combined Contribution** | • If you are under 50 years of age, the smaller of $5,500 or the amount of your taxable compensation can be split between a traditional IRA and a Roth IRA.  
  • If you are 50 years of age or older, the smaller of $6,500 or the amount of your taxable compensation can be split between a traditional IRA and a Roth IRA.  
  • The maximum deductible contribution to a traditional IRA and the maximum contribution to a Roth IRA may be reduced depending on your MAGI. |
<table>
<thead>
<tr>
<th>TRADITIONAL IRA</th>
<th>ROTH IRA</th>
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</thead>
<tbody>
<tr>
<td><strong>Deadlines</strong></td>
<td>Generally April 15 to contribute for the previous tax year.</td>
</tr>
<tr>
<td><strong>Federal Income Tax Deduction Limits for 2017</strong></td>
<td>If you are covered by a retirement plan: Individual or head of household: Full deduction if MAGI is below $62,000, partial deduction for MAGI from $62,000 to $72,000, no deduction allowed if MAGI is greater than $72,000. <strong>Married filing jointly or qualified widow(er):</strong> Full deduction if MAGI is below $99,000, partial deduction for MAGI from $99,000 to $119,000, no deduction allowed if MAGI is greater than $119,000. <strong>If you are NOT covered by a retirement plan:</strong> Individual, head of household or qualified widow(er): Full deduction up to the amount of your contribution. <strong>Married filing jointly, with a spouse who is NOT covered by a plan at work:</strong> Full deduction up to the amount of your contribution. <strong>Married filing jointly, with a spouse who is covered by a plan at work:</strong> Full deduction if MAGI is below $186,000, partial deduction for MAGI from $186,000 to $196,000, no deduction allowed if MAGI is greater than $196,000.</td>
</tr>
<tr>
<td><strong>Tax-advantaged Growth</strong></td>
<td>No taxes on distributions until you withdraw them.</td>
</tr>
<tr>
<td><strong>Required Distributions</strong></td>
<td>Distributions must begin by April 1 of the year after turning 70½ years of age.</td>
</tr>
<tr>
<td><strong>TRADITIONAL IRA</strong></td>
<td><strong>ROTH IRA</strong></td>
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</tr>
<tr>
<td><strong>401(k) Rollovers</strong></td>
<td>Once you are eligible to take a distribution from your 401(k), you may roll it directly into a traditional IRA.</td>
</tr>
</tbody>
</table>
| **Withdrawals** | • After 59½ years of age, withdrawals are not subject to penalties. Withdrawals may be subject to federal and state income taxes.  
• Withdrawals prior to 59½ years of age may be subject to federal and state income taxes, plus a 10 percent penalty | • Contributions may be withdrawn at any time without penalty.  
• Early withdrawal of earnings may be subject to federal and state income taxes plus a 10 percent penalty. |
| **Qualified Early Withdrawals** | • You may begin taking withdrawals without any penalties when you reach 59½ years of age. In addition, penalty-free withdrawals are allowed if you are a first-time homebuyer ($10,000 lifetime limit).  
• You use a withdrawal to pay for certain higher education expenses.  
• Conditions are met for unemployment or qualifying medical expenses.  
• Distribution is a result of disability.  
• You are separating from service during or after the year you reached age 55.  
• Substantially equal periodic payments (SEPPs) can generally be taken without a particular life event. There are several ways to calculate what must be at least an annual payment using an IRS-approved method. Individuals using SEPPs must understand that once payments begin, they can only be stopped without penalty after the later of 5 years after the first payment or 59½. | Your principal and earnings may be withdrawn completely tax free if the Roth IRA has been open for 5 or more years and at least one of the following conditions are met:  
• You are 59½ years of age or older.  
• You are a first-time homebuyer ($10,000 lifetime limit).  
• You are disabled.  
• Withdrawals are made by your beneficiary after you die. |
TRADITIONAL IRA

This IRA May Be Right For You If:

• You do not qualify for a Roth IRA because of your income level.
• You expect to be in a lower income tax bracket in retirement.

ROTH IRA

• You anticipate remaining in your current tax bracket after retirement.
• You expect that when you retire, you will be in a higher federal income tax bracket.
• You desire flexibility in distribution options and do not want to be required to take mandatory distributions during your lifetime.

WHAT ARE STRETCH IRAs?

This is a distribution strategy that can extend the tax-deferred status of an IRA across multiple generations. If you do not need all of the assets in your IRA to cover expenses in retirement, consider the stretch IRA strategy. This strategy can “stretch” the time during which the IRA’s assets have the potential to grow tax-deferred.

THE BENEFITS OF STRETCHING

• If you name your spouse as beneficiary, at your death they can roll the balance into their own Traditional IRA and name a younger beneficiary.

• The spousal beneficiary can then take required minimum distributions (RMDs) over their life expectancy. If your spouse is under 70½, he or she can delay taking RMDs until he or she reaches 70½. After the spousal beneficiary dies, the second generation beneficiary may transfer the assets to an inherited IRA and begin taking RMDs over his or her own life expectancy. It is called an Inherited IRA because it can only hold inherited assets.
1 WHO can open an IRA?
Anyone who is younger than age 70½ and has earned income can open an IRA. Even your kids, so long as they’re earning money, can open an IRA.

2 WHAT are the benefits of having an IRA?
Whether you choose a traditional IRA or a Roth IRA as your retirement investment account, you can benefit from tax-deferred compounding of your earnings over the long term. Compounding is when earned interest is added to the principal, which earns additional interest on itself. Over time, compounding can potentially produce significant growth!

3 WHEN should I open an IRA?
It’s never too early to begin planning for the future, whether you’re just getting started in your first job after college or changing careers and rethinking some of your retirement strategies. Opening an IRA can complement other saving and investment programs and give you more opportunity to allocate and diversify your assets.

4 WHERE can I open an IRA?
There are several places you can open an IRA including banks, mutual funds companies, brokerage firms, and even insurance companies depending on what type of IRA is best for your individual needs. Your financial adviser can best guide you through the choices and process.

5 WHY choose one plan over another?
When deciding where to open your IRA and what kind to open you need to consider:

- Fees. There may be start-up costs, annual maintenance fees and fees for changing your investments or withdrawals.
- The cost of transferring your account to another provider.
- The minimum investment amount.
- Whether you can make automatic investments from a checking or savings account.
- Investment options. For example, can you invest in stocks, bonds and mutual funds?
How can I convert a traditional IRA to a Roth IRA?

As of January 1, 2010 a federal income tax change is available to investors for the conversion of a traditional IRA to a Roth IRA.

• In 2005, the Tax Increase Prevention and Reconciliation Act (TIPRA) was passed. Under the act, all taxpayers in every tax bracket and age were given the opportunity to convert their current traditional IRA into a Roth IRA beginning in tax year 2010. This can be done regardless of income.

• Converting to a Roth IRA allows you to pay federal income taxes on your retirement assets now rather than later.

Recharacterization

Recharacterization allows for the “undoing” of a Roth IRA conversion decision resulting in a refund of any income tax paid on the conversion. If you have not yet paid the tax, then the liability will be removed. Recharacterization can be done up to the due date of your tax return plus extensions which is typically October 15th of the year after conversion.

Roth conversion benefits

The potential benefits of a Roth IRA conversion are unique to your particular situation and goals. Age and the opportunity cost associated with paying taxes in today’s dollars are certainly factors. For older investors who do not need income from a Traditional IRA during retirement, a Roth conversion may be appealing for legacy planning. Also, consider that assets used to pay conversion taxes will reduce your taxable estate and thereby any estate tax, if applicable. Your heirs will eventually inherit the Roth IRA from which they can withdraw tax-free income for the remainder of their lives.

Distributions from Roth IRAs are tax-free and should be considered in the context of your tax-exempt income strategy. Another major potential benefit of Roth IRAs is that they are not subject to RMD requirements for the Roth owner or their spousal beneficiary. This allows for tax-free accumulation and distribution of assets over many years. Clearly, this type of flexibility needs to be evaluated as part of your long-term, tax-exempt income planning strategy.

No conversion strategy is complete without a clear understanding of how those now tax-free assets will affect your overall asset allocation. How much should be guaranteed? Do you need growth or income from this tax-free account? How will this affect your taxable portfolio? These are compelling and important considerations in the context of the conversion decision.

Keep in mind that a growing number of defined contribution plans are allowing “in-plan” conversions from Traditional to Roth 401(k)s.

Reducing the uncertainties associated with retirement always makes sense. A Roth IRA can play an important role in navigating a future made more challenging by potentially higher tax rates and the need to work longer.
IRA rollover
Changing jobs? you may need to change your IRAs.

You may be considering a move to a new job — but what happens to the investments you’ve acquired in your current employer’s qualified retirement plan, such as a 401(k)?

Some companies allow you to leave money in their plans until you reach retirement age while others require you to move your money. You could take a lump sum payout, but that involves federal income taxes and penalties. Or, you could roll the money over into an IRA, maintaining the federal income tax-deferred status of your retirement savings and avoiding federal income taxes and penalties.

An IRA rollover is simply a transfer of funds from a retirement account into a traditional IRA or a Roth IRA. This can occur either through a direct transfer or by having the custodian of the distributing account — depending on where you opened it — write a check that you can then deposit into another IRA account. When rolling money over from a qualified plan, you may place it into an existing IRA or into a new IRA in order to keep the rollover separate. This will afford you the flexibility to move the funds to another employer-sponsored plan some day. But some companies do not allow the rollover of combined assets and although you can make contributions to a rollover IRA, doing so may mean you cannot roll the IRA into a new employer-sponsored plan — so before you go, make sure you know!

Decisions, decisions, solutions.

Unsure about what to do or having difficulty understanding the ins and outs of IRAs and your options? Consider talking to a CERTIFIED FINANCIAL PLANNER (CFP)™ — according to the Financial Planning Association, a CFP® professional “is an individual who has a demonstrated level of financial planning technical knowledge, experience in the field and holds to a client-centered code of ethics.” These practitioners have participated in a rigorous program including ‘education, examination, experience and ethics’ and received certification by the Certified Financial Board of Standards. Certified Financial Planner Board of Standards, Inc., owns the certification marks CFP® and CERTIFIED FINANCIAL PLANNER™ in the U.S.

TAKE NOTE...

If you change jobs or retire and make an EARLY withdrawal from your 401(k) retirement savings, the company is required to withhold 20% of your 401(k) savings for federal income tax purposes. This applies only to qualified retirement plans, including 401(k) plans and other profit-sharing plans. It is possible to avoid the 20% IRA withholding law with a 100% direct rollover into your IRA. Simply request that your previous employer pay all of your retirement plan distribution directly into your rollover IRA account.
other types of IRAs

While traditional and Roth IRAs are the best known IRA options, there are other types of IRAs:

**Simplified Employee Pension IRA (SEP IRA)**
A retirement plan established by employers, including self-employed individuals. With a SEP, employers make federal income tax-deductible contributions on behalf of eligible employees. The 2017 contribution limit for eligible employees is the lesser of either $54,000 or 25 percent of total employee compensation.

Participating employees must establish a traditional IRA to which the employer deposits SEP contributions. Employees do not pay federal income taxes on SEP contributions, but the contributions are taxed upon distribution.

**SIMPLE IRAs**
Designed to make it easier for businesses with less than 100 employees to offer workers a tax-advantaged, company-sponsored retirement plan. SIMPLE plans can be funded by employer contributions and contributions from an employee’s pretax income. Contributions and investment earnings grow tax deferred until withdrawal, when they are taxed as ordinary income.
Additional retirement investment opportunities

There are more ways you can save for the future so it’s important for you to take the time now to learn about the wide variety of resources that may be available to help maximize your retirement dollars.

**EMPLOYER PLAN WITH A MATCH**
If your employer offers matching contributions to your retirement plan, be sure to contribute the maximum the employer is willing to match. Even if your employer only makes a partial match, you should consider taking advantage of this opportunity. It is additional money that can compound and grow.

**EMPLOYER PLAN WITHOUT A MATCH**
Even if your employer does not match your contributions to your company-sponsored retirement account, you should generally participate. Contributions and earnings within a qualified plan are not subject to federal income tax until withdrawn, which allows you to save money on a pretax basis.

**TAXABLE INVESTMENTS**
When setting aside money for retirement, you should contribute to plans that offer tax advantages, such as employer-sponsored plans and IRAs. Once you have reached the contribution limits on those plans, you should consider taxable investments. The key is keeping your expenses down by:

- Taking advantage of lower federal income tax rates on long-term capital gains by holding stocks for more than 12 months.
- Choosing mutual funds with a lower annual turnover.

**ANNUITIES**
An annuity is similar to a 401(k) or an IRA, in that investment earnings are not taxable until withdrawn. However, with an annuity, there is no limit on how much you may contribute. Some investors use annuities to build tax-deferred earnings without intending to annuitize. Others buy annuities as personal pensions to provide a stream of guaranteed lifetime income.
options for servicemembers
There are additional savings options designed to meet the unique needs of U.S. servicemembers.

**Thrift Savings Plan (TSP)**
The government-sponsored TSP generally works like a 401(k) plan offered by some civilian employers. You can contribute any whole percentage of your basic pay, bonuses, incentives or special pays, before federal income taxes, up to an annual maximum of $18,000 as set forth by the IRS plus the age 50 or older catch up provision of $6,000 for 2017. The plan offers a variety of index-based investment options including life-cycle funds, which are tailored to your projected retirement date.

**Features of a TSP:**
You can contribute to the TSP and to an IRA, although your IRA contribution may not be tax deductible based on IRS rules. You can borrow from your TSP account without penalty. Repayments and interest go back into your account.

You are subject to federal income taxes and penalties if you withdraw your money before you are 59½ years of age. However, if you separate from military service at 55 years of age or older, withdrawals from your TSP are not subject to IRS penalties.

**When you leave military service you may elect to:**
- Roll over the money into a traditional IRA or other retirement account.
- Leave the money in the TSP until you must withdraw at 70½ years of age.
- Select an annuity and establish monthly payments.
- Take the money in a lump sum (possible federal income tax and penalties may exist).

All withdrawals from the TSP are subject to ordinary federal income tax. To learn more about the TSP, visit the Thrift Savings Plan at tsp.gov

**Roth TSP**

As of October 1, 2012, active military members of the Army, Navy and Air Force as well as Reservists and National Guardsmen may elect to contribute to a Roth TSP. These are after-tax contributions.

Visit tsp.gov for more information about enrollment, plan details and to compare the Roth TSP and Traditional TSP.

For either type of TSP, it is recommended that those separating from the military should be sure to leave their money in the TSP or roll it over to an IRA or a new employer’s defined contribution plan. Taking a lump-sum distribution in cash should be avoided if at all possible.

**Tax relief for military families**

A provision of the Heroes Earnings Assistance and Relief Tax Act of 2008, or HEART Act, includes tax-free savings options for individuals who receive military death gratuities or payments under the Servicemembers’ Group Life Insurance (SGLI) program. The death payment can be rolled over, free of federal income tax, to a Roth IRA and/or Coverdell Education Savings Account (ESA). The full amount can be deposited regardless of other income or contribution limits that may apply.

This allows military family members to realize the potential long-term benefits of tax-free earnings on investments. It is recommended that survivors consider meeting with a Certified Financial Planner™ as they make these important decisions.
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