THE BENEFITS OF IRA ACCOUNTS

A BRIEF OVERVIEW

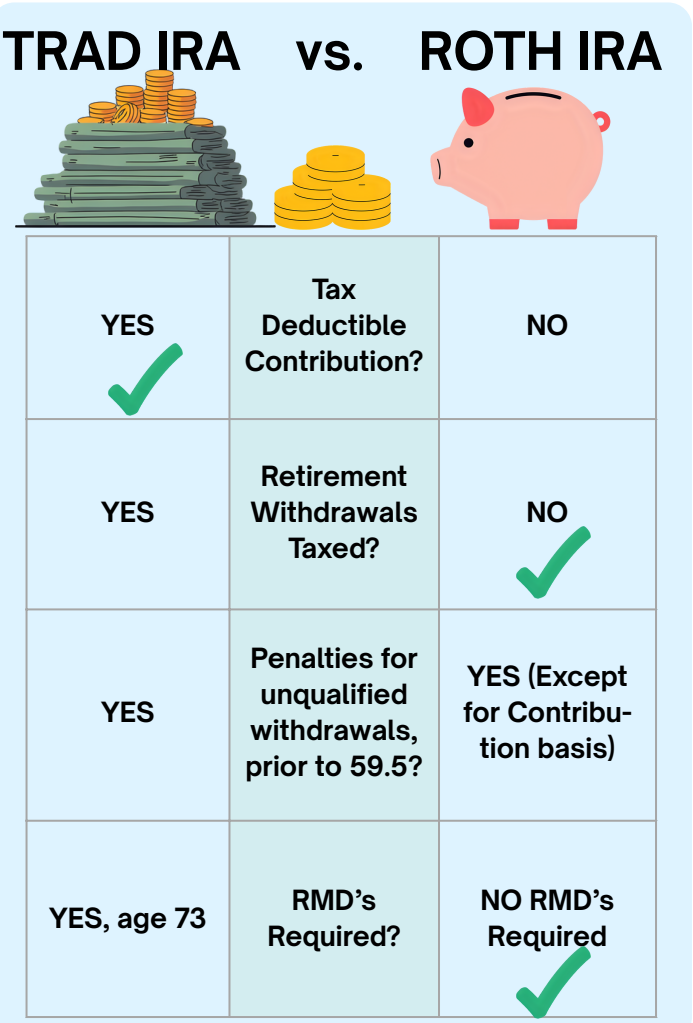
Individual Retirement Accounts (IRAs) have become a cornerstone of retirement planning, offering tax advantages, flexible investment options, and long-term growth potential. IRAs allow individuals to save systematically for retirement while benefiting from tax-deferred or tax-free growth, depending on the type of IRA account(s) utilized. While there are a number of various types of IRA account categories available, to which each may cater to a specific requirement or strategy, we will touch briefly on the more prominent IRA accounts often used:

- TRADITIONAL IRA
- ROTH IRA
- SEP IRA
- INHERITED IRA

Traditional IRA's & Roth IRAs: Comparing Key Features

Traditional IRAs allow contributions to be made on a pre-tax basis, potentially reducing your taxable income for the year in which the contributions are made. Funds within a Traditional IRA grow tax-deferred, meaning investment earnings are not taxed until withdrawals are made in retirement. The IRS requires minimum distributions (RMDs) starting at age 73 (born in 1960 or later), ensuring that the funds are eventually withdrawn and taxed. Traditional IRAs are often advantageous for individuals who expect to be in a lower tax bracket in retirement than during their working years, or for those who want to reduce current-year taxable income while saving for retirement. While contributions for tax deferred growth can be made at any income level, those who participate in other qualified plans such as 401k's must meet certain income limits to enjoy tax deductions on their IRA contributions.

Roth IRAs, in contrast, are funded with after-tax dollars, so contributions do not reduce current taxable income. However, qualified withdrawals including both contributions and earnings are completely tax-free, provided the account has been open for at least five years and the account holder meets IRS requirements. Unlike Traditional IRAs, Roth IRAs do not require RMDs during the owner's lifetime, making them especially attractive for younger savers, those expecting higher taxes in the future, or individuals who want to leave a tax-free inheritance for heirs. Contributions to ROTH IRA's are eligible to individuals and married couples provided they meet certain income limits for the tax year of the contribution.



Because Roth IRAs allow tax-free growth and withdrawals, they can also serve as a strategic tool for tax diversification in retirement. We often recommend a mix of both Traditional and Roth accounts, allowing clients to manage taxable income in retirement and potentially reduce overall taxes over their lifetime. Additionally, Roth IRAs can offer greater flexibility, since contributions (but not earnings) can generally be withdrawn at any time without penalty, providing a source of liquidity if needed.

Interesting IRA Fact:

Minors can have IRAs: Anyone with earned income can contribute to an IRA, regardless of age, so minors with a job can open one.

SEP IRAs: A Tool for Small Business Owners

Simplified Employee Pension (SEP) IRAs are designed for self-employed individuals and small business owners. These accounts allow employers to contribute up to 25% of an employee's compensation (subject to IRS maximums) into retirement accounts. Contributions are tax-deductible for the business, and investments grow tax-deferred until withdrawal. SEP IRAs do not allow employee contributions beyond what the employer contributes, but they provide a flexible way to make larger tax-advantaged contributions, especially for small business owners seeking to maximize retirement savings.

Inherited IRAs: Passing Retirement Assets to Beneficiaries

Inherited IRA's, also called beneficiary IRA's, are retirement accounts transferred to heirs after the original owner passes away. These accounts follow rules that are different from those for Traditional or Roth IRAs owned by the original saver. Beneficiaries cannot make new contributions, but the assets can remain invested and continue to grow tax-advantaged.

Distribution rules depend on the type of IRA and the beneficiary's relationship to the original owner. Traditional inherited IRAs generally require beneficiaries to take taxable withdrawals, while Roth inherited IRAs typically allow tax-free distributions if IRS requirements are met. Most non-spouse beneficiaries must follow a required withdrawal schedule, often needing to fully distribute the account within a set timeframe, such as 10 years.
Spouses, however, have more flexibility. A surviving spouse can treat the inherited IRA as their own, either by rolling it into their existing IRA or keeping it as an inherited IRA and using more favorable distribution rules. This flexibility allows the surviving spouse to time withdrawals strategically and potentially delay required minimum distributions, offering additional planning advantages. Because of these rules, inherited IRAs are a valuable estate-planning tool, helping heirs manage and preserve retirement assets while staying compliant with IRS guidelines.

Now that we've review some basics of the most prominent IRA's, let's review some basic rules common to most all IRAs here:

Contribution Limits: IRA's have limitations of how much one may contribute on an annual basis. For 2026, the maximum contribution to a Traditional or Roth IRA is $7,500 per year, with an additional $1,100 catch-up contribution for individuals aged 50 or older. This is dramatically lower than what you may contribute to a qualified plan through an employer such as a 401k. But IRA contributions can be made in addition to employer qualified plans and can be considered a supplemental retirement plan, provided certain criteria are met. For those who are self-employed and opt for a SEP IRA, contribution limits can be substantially higher. For tax year 2025 employers may contribute to a SEP IRA up to 25% of an eligible employee's compensation, or a maximum of $72,000(2026), whichever is less.

Age for Withdrawals: Generally, IRA owners can begin taking penalty-free withdrawals at age 59½. Withdrawals before this age may be subject to a 10% early withdrawal penalty, in addition to income taxes for Traditional IRAs. There are certain exemptions that allow you to withdraw prior to age 59½, such as disability, first time home buyer considerations up to 10k, medical expenses beyond 7.5% of adjusted gross income, and several others. These early withdrawal penalty exemptions are designed to support individuals in times of genuine hardship.

Required Minimum Distributions (RMDs): Traditional & SEP IRAs require account holders to begin taking distributions at age 73 for those born in 1960 or later (the withdrawal age slightly varies for those born prior to 1960). These minimum distribution amounts are calculated from the aggregate IRA balances and the current life expectancy factor of the individual, so everyone's RMD amount is different, and that amount changes every year after age 73 based on these factors. Roth IRAs, by contrast, do not have RMDs during the owner's lifetime, allowing the funds to grow tax-free for longer. It's crucial to ensure the RMD's are taken in a timely manner as there are hefty penalties of up to 25% of the RMD amount for not taking the distribution.

Balancing Your IRA Strategy

IRA's, regardless of the type, offer significant benefits but also come with specific rules and requirements. Traditional IRAs provide current-year tax relief, Roth IRAs offer tax-free withdrawals, SEP IRAs allow for higher contributions for business owners, and Inherited IRAs support tax-efficient wealth transfer. The right combination depends on your income, tax situation, retirement horizon, and overall planning goals.

Regardless of the IRA type you are utilizing, regularly reviewing your retirement accounts and consulting with an investment advisor or tax professional can help ensure your IRA strategy aligns with your objectives. By understanding the nuances of each account type and leveraging their advantages, you can strengthen your long-term retirement plan and make the most of your IRA opportunities. Please feel free to inquire anytime with questions or for discussion.

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