RETIREMENT ACCOUNT MANAGEMENT

Money set aside for retirement may include one or more of the following: 401(k)s, 403(b)s, and various IRAs (Individual Retirement Accounts).

A retirement account, such as an IRA, or individual retirement account, is a standard brokerage account with access to the same range of investments. The biggest difference between a retirement account and a brokerage account is how the IRS taxes (or doesn't tax) contributions, investment gains, and withdrawals. There must be an earned income (or the spouse must have qualified earned income) to be eligible to contribute to an IRA. There are also income limits for contributing to a Roth IRA and for deducting contributions to a Traditional IRA. Consult with a tax accountant for specific amounts. Currently, the maximum an individual is allowed to contribute to an IRA is $7,000 in 2024 ($8,000 if age 50 or older). Per IRS rules, there may be taxes and penalties for tapping into IRAs before age 59½. If a person believes they will need access to the money before age 59½, the Roth IRA will provide more penalty-free options. Additionally, in a Roth IRA, contributions – but not investment earnings – can be pulled out at any time without incurring income taxes or an early withdrawal penalty.

The most common types of retirement accounts are Traditional IRAs and Roth IRAs. Although, there are other additional accounts such as SEP IRAs, SIMPLE IRAs and Solo 401(k)s. If a company offers a 401(k) plan and matches any portion of the money saved in that account, contribute to the 401(k) before funding an IRA.

Depending on the type of IRA chosen, there is an option of an upfront tax break in the year the account was contributed to (with a traditional IRA), or a back-end tax break that makes the withdrawals in retirement tax-free (via Roth IRA). Joint IRAs are not allowed.

> **Traditional IRA –** In a Traditional IRA there are immediate tax benefits, but when the money is taken out in retirement, taxes will need to be paid. If there is an interest in increasing tax-deferred retirement savings, a Traditional IRA may be a good option. There are no income limitations to open an account and current year contributions may be tax deductible. This may also be a good option for those who expect to be in the same or lower tax bracket in the future, because ordinary income taxes will be paid on the withdrawals.

> **Roth IRA –** A Roth IRA gives the opportunity to get tax benefits later, when retirement savings are taken out, they are tax-free. Contributions and prospective investment gains will grow tax-free. Withdrawals out of the account can be taken out tax-free and penalty-free, as long as the accountholder is 59½ or older and they have met the holding period minimum on the account. There are no mandatory withdrawals (unlike a Traditional IRA).

> **Rollover IRA –** This is an account that can help move the funds from a previous employer-sponsored retirement plan into an IRA. This is a wise way to keep money invested and avoid withdrawal penalties. Additionally, investment opportunities can be taken advantage of that may meet retirement goals and risk tolerance.

> **SIMPLE IRA –** (Savings Incentive Match Plan for Employees IRA) – This is an account held by an employer, unlike a Roth IRA. When retired, there is an option to leave it behind or roll it over to a new account. This is a good fit for small businesses looking to provide their employees with a retirement plan.

A person’s personal and financial situation will help to decide what IRA may be the best fit, as they will each have different requirements and benefits. After opening a retirement account and funding it, the investment advisor can choose from a variety of investments including stocks, bonds, mutual funds, and more.