



WEALTH MANAGEMENT[®], INC.

Your Guide to Saving for Retirement with an IRA

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Your guide to saving for retirement with an IRA.

Retirement planning is key to reaching the goals you set for yourself while you are employed. Whether your retirement plans include travel, volunteering or spending more time with family you should start saving for your retirement today. Most importantly, retirement should be a time where you can live comfortably on the savings and investments made while you were still working.

If you are fortunate enough to have a workplace retirement program such as a 401(k) or 403(b) you need to ensure that you max out these account contributions each year.

There are three advantages to these plans. First, the contributions you make are made with pre-taxed dollars which reduces the income taxes you pay the IRS. Your taxes are deferred until you take the money out of the account. The maximum contribution that can be made by an employee into their 401(k) (or similar account) in 2024 is \$23,000. If you are aged 50 or older you are allowed an additional \$7,500 in catch-up contributions.

Secondly, if your employer contributes to your workplace retirement account, they could add an additional \$46,000. So, in theory, a maximum contribution per year could reach \$69,000, for those under 50 years of age.

Lastly, if your employer allows matching contributions, then you should attempt to invest at least the amount the employer is contributing to their match. You may hear this referred to as "free money." But understand, if you do not contribute to the workplace retirement account the employer is not obligated to contribute.

If you do not have a 401(k)-style plan at work, or you have maxed out your contributions, there are other investment options available to help boost your retirement efforts.

Many people do not have a workplace retirement program. For those people, an IRA may be an option to consider. This Special Report discusses IRA investment options available to you so you can be more confident about investing in your financial future.

First, let's define what an IRA is:

You can best visualize an IRA (Individual Retirement Account) as a basket that simply holds investments for retirement. Investments can include individual stocks, mutual funds, bonds, and other investments that you choose to purchase. Like 401(k), IRAs have the potential to grow and offer tax advantages, if the money is saved pre-tax.

IRAs are either the Traditional IRA or a Roth IRA. Self-employed people have other options such as a SIMPLE IRA and a SEP IRA. We will discuss those options later.

Traditional IRA vs. Roth IRA:

Both the Traditional & Roth IRAs are accounts you open and fund on your own. These are extremely popular, and the IRS approved methods to accumulate assets for your retirement. The main differences between a Traditional and Roth IRA are how and when each is taxed.

How Traditional IRA's work:

A Traditional IRA is a type of savings plan funded with qualified funds. The term "qualified funds" means the funds used to fund the account are pre-tax dollars, just like a 401(k)-retirement account, and taxes are deferred until you begin withdrawals. The taxes you pay when you withdraw funds from the IRA will utilize whatever your tax rate is at the time of the withdrawal. Then you can have the appropriate taxes withheld upon withdrawal.

To qualify for a Traditional IRA, you or your spouse must have "earned" income. Earned income refers to money received for work performed. This includes wages, salaries, tips, bonuses, and commissions. It can also come from self-employment activities. It's any income that results from personal labor or services provided by an individual.

Although there is no age requirement or income threshold to open a Traditional IRA, there is an income phaseout for who can contribute.

The maximum contribution limit in 2024 for a Traditional IRA is \$7,000 if you are under 50. If you are 50 or older, you can contribute an additional \$1,000 for a maximum of \$8,000.

Contribution thresholds usually change each year to keep pace with inflation. Be sure to check the IRS website (www.irs.gov) for current contribution thresholds.

You will be subject to Required Minimum Distributions (RMDs):

With a Traditional IRA, you must begin taking RMD's by the time you reach your required beginning date (RBD). Your RBD depends on the year you were born:

- If you were born between 1951-1959: Your RMD start age is 73.
- Age 75 is 2033.

If you have more than one IRA, you can take the entirety of the RMD from one account. This simplifies the annual RMD process. It is important to note that if you fail to withdraw the full amount of the required RMD by the due date, the amount not withdrawn is subject to penalties. The SECURE 2.0 Act drops the excise tax rate to 25%; 10% if the RMD is corrected within two years.

You will pay taxes at the point of withdrawals:

Since you get a tax benefit upfront, you pay income tax on the money you withdraw in retirement. Qualified withdrawals can be made penalty-free as early as age 59½. And at that stage of life, you might be in a lower tax bracket than you are now, providing potential benefit.

If you make early withdrawals, you may face a penalty:

If you need to withdraw funds from a Traditional IRA before 59½, you may face a 10% penalty unless you qualify for an exception. Exceptions include paying health insurance premiums after a job loss, purchasing a first home, helping pay for the birth or adoption of a child, and helping pay qualified education costs for you or a family member.

Always consult the IRS website for a complete list of exceptions. The referenced list includes qualified plans, IRA, SIMPLE IRA, and SEP plans. The IRS website also provides additional references in the IRS code.

Roth IRAs work:

Traditional IRA and Roth IRA are similar in function, but with different tax advantages and income limits to participate.

Contributions to a Roth account are made with after-tax dollars. This helps reduce future tax liabilities later when you withdraw money from this account.

The contribution limit for a Roth IRA is the same as a Traditional IRA. Roth IRA limitations are \$7,000 if you are under age 50. If you are fifty or older you can contribute an additional \$1,000 for a maximum of \$8,000.

Contribution limits for Traditional and Roth IRAs are the same. Please check the contribution limits each year to ensure you do not over contribute. Excess contributions are taxed at 6% per year the excess amount remains in the IRA, and to avoid this "fee" you can reverse the excess contribution.

Roth Withdrawals come with tax advantages:

Because you funded the Roth IRA with after-tax dollars, you can withdraw the contributions you have made at any time without incurring taxes or penalties, provided the account has been open for at least five years. This "back-loaded" tax benefit may be advantageous if contributions were made during a time when you were in a higher tax bracket that you may be in retirement.

Earnings made in the Roth account can be taken tax-free after you reach age 59^{1/2}. This is a great option for many because the money earned grows tax-free.

RMD requirement for Roth accounts:

Unlike Traditional IRAs, Roth IRAs do not have an RMD requirement. If you have enough income from other sources to live on, you could continue to let this investment grow until you need it. However, if your Roth IRA is inherited by a non-spouse beneficiary, they will be subject to distribution requirements.

Distribution Requirements:

Traditional and Roth IRAs are both subject to the new IRS distribution requirements upon death of the account holder. When the owner of record dies, the following are outcomes under the 10-year liquidation rule.

- Spouse Beneficiary: May keep and maintain the account as if it were always theirs, with distributions starting by their age deadline.
- Non-spouse Beneficiary: Under the 10-year rule, the beneficiary of an account owner must deplete the inherited account by December 31 of the year containing the 10th anniversary of the account owner's death.

Roth IRA's have income limits:

Roth IRA's offer tax-free withdrawals. However, high earners may find they are not allowed to contribute to a Roth due to IRS income limits. When your adjusted gross income tops a certain amount, you only may be eligible to contribute a reduced amount to a Roth IRA—or not be allowed to contribute at all.

If you make equal to or more than these limits, you cannot contribute anything to a Roth IRA:

Filing Status	2024 maximum Modified Adjusted Gross Income (MAGI) to contribute to a Roth IRA
Single or head of household	146,000-\$161,000
Married filing jointly	\$230,00-\$240,000
Married filing separately	\$0-\$10,000

Traditional IRA to Roth conversions:

Income limits do not apply if you are completing a Roth IRA conversion. State tax rules may differ from federal rules pertaining to Roth conversions. Consult your tax professional for specific guidance.

SIMPLE & SEP IRAs:

The SIMPLE program is a fantastic program for organizations with fewer than one hundred employees. Savings Incentive Match Plan for Employees (SIMPLE) and Simplified Employee Pension (SEP) individual retirement accounts (IRAs) are two of the most popular and convenient ways for a business owner to contribute to both their own and their employees' retirement savings. SIMPLE IRAs may be used if you are self-employed, whether you have employees, or not. As the employer you complete a short form to register, but you do not have annual IRS filing requirements. **SIMPLE IRA contributions are limited to \$16,000 for people under age 50, and \$19,500 for employees over age 50.** SEP contributions can be made directly from a business account, and are equal to 25% of your compensation, up to \$69,000. This type of account can help a self-employed person dramatically lower the tax owed by their business.

Only employers are required to make contributions.

Employers can make matching or non-elective contributions directly to each eligible employee's SIMPLE IRA, including their own account. As an employee, you can make contributions to a SIMPLE IRA up to \$16,000 in 2024.

If you are the employer, you are required to contribute each year to any SIMPLE accounts established for qualified employees by either making matching contributions up to 3% of the employee's compensation or nonelective contributions worth 2% of the employee's compensation.

You are 100% vested right away:

SIMPLE IRAs belong to the employee. The employee owns all the money in their SIMPLE IRA, to include any employer contributions.

SIMPLE IRA taxation:

Contributions to a SIMPLE IRA are like a Traditional IRA as they are made on a pretax basis and are taxed at your ordinary rate when you make withdrawals after age 59½. An early withdrawal penalty of 10% applies to any ineligible distributions before then (this goes up to 25% if you take a distribution in your first 2 years).

Simplified Employee Pension (SEP) IRA' s:

SEP IRAs are a retirement savings program available for business owners, either with or without employees and provide the most flexibility when it comes to contributions. Each year, you can decide how much you contribute to your employees' accounts, if anything.

SEP IRA contribution limits

The contribution limit is one of the biggest differences between SIMPLE and SEP IRAs. And if your business can afford to fully fund this program you could quickly create a long-lasting retirement nest egg.

The 2024 IRS contribution limits are significant. As the employer, you could contribute up to \$69,000 or 25% of compensation (based on earnings up to \$345,000), whichever is less.

Employers are not required to make contributions:

Employers are not required to put money in their employee's SEP accounts each year. If you are the employer, it gives you more financial flexibility.

But if you are an employee, this feature of SEP IRAs can give you less certainty with your retirement planning. If employers do provide funds in a given year, they must contribute equally to all employees.

Withdrawals are subject to income tax:

When you take money out of your account after age 59½, you pay taxes on the distribution at your ordinary income tax rate. An additional penalty of 10% applies to early withdrawals unless the distribution qualifies for an exemption.

IRA comparisons:

Below is a side-by-side comparison of the four types of IRAs discussed. Each of the four IRAs has unique features that are important to understand before making a contribution.

	Traditional	Roth	SIMPLE	SEP
Eligibility	Anyone with earned income.	Must have earned income that does not exceed established thresholds.	Self-employed individuals & employees at a small business that offers a SIMPLE IRA.	Self-employed individuals & employees at a business of any size that offers a SEP IRA.
Tax-deductible contributions?	Yes, up to annual limits may be reduced if you or your spouse is eligible for a workplace plan.	No	Yes, employee contributions subject to S.S., Medicare, & federal unemployment taxes	No
Tax-free withdrawals?	No, withdrawals are subject to ordinary income tax.	Yes, if age 59½ & have owned the account 5+ yrs. Can withdraw up to the total of your contributions tax-free at any time. ¹	No, withdrawals are subject to ordinary income tax.	No, withdrawals are subject to ordinary income tax.

Contribution limit	2024: Up to \$7,000, or \$8,000 if age 50 or older ¹	2024: Up to \$7,000, or \$8,000 if age 50 or older	Employees can contribute up to \$16,000 in 2024; you are also eligible for mandated employer contributions. ¹	Employers can invest up to up to \$69,000 in 2024, or 25% of your annual compensation, whichever is less. ¹
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1 – Percentages, ages contribution & withdrawal limits, and other IRS rules are subject to change. Please double check any facts and figures to ensure accuracy.

Should you have both, a 401(k) and an IRA?

In some cases, you may benefit from funding 401(k) and an IRA simultaneously. Because their maximum contribution amounts are independent of each other, investing through one does not limit your ability to put money in the other account.

If you have access to an employer-sponsored retirement plan, it is typically a good foundation for your long-term savings. Because the employer-sponsored retirement account is funded with pre-taxed dollars you may end up paying less in taxes. If your employer’s program offers to “match your contribution” you will see your investment account increase in value more quickly than if they did not match your contribution.

There are several reasons you may want to consider investing additional dollars in an IRA above-and-beyond the employer program. This could be particularly appealing if you are not satisfied with the more limited investment options available through your employer plan, or you might invest in funds that have lower fees than the employer sponsored account.

Additionally, your employer may not offer a Roth option, and you may want to take advantage of tax-free withdrawals. Since Roths allow penalty-free withdrawals of contributions, this may be a good option.

If you have earned income, you can invest with both types of IRAs in the same year. However, the annual contribution limit applies to your total contributions to both Traditional and Roth IRAs. Refer to the table on the previous page.

Should I have both a Traditional IRA and a Roth IRA?

You might want to split your contributions between both for a few reasons. For instance, you might not be confident about whether your tax bracket may go up or down in retirement, in which case a hybrid approach can help mitigate your risk. Even if a Traditional IRA offers a

larger tax break, you might want some money in a Roth IRA, so you have the flexibility to make tax-free withdrawals of contributions at any time.

In Closing:

Saving as part of your retirement program is one of the best steps to help you achieve your retirement goals. Whether you want to travel, volunteer, or spend more time with family you should start saving for your retirement today.

If you would like to discuss these options with one of our Financial Advisors, please contact Lifespan Wealth Management for a no cost, no obligation consultation. Our number is (478-922-8100 and you can learn more about us by visiting our website www.retirerelax.com. We have offices in Macon and Warner Robins for your convenience.

There is a lot to consider when it comes to your retirement, so feel free to call us for a no cost, no obligation consultation. We have been serving middle Georgia for over 30 years and are confident we can assist you with these crucial decisions.

We offer complementary consultations to help you through any financial decisions, including retirement planning.

Additional Special reports on Our Website:

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