Traditional & Roth IRAs

An individual retirement arrangement (IRA) can help you save for retirement with either tax-deferred or tax-free growth of any earnings. You may also choose to use an IRA to supplement your 401(k) without increasing your tax burden.

There are two main types of IRAs – Traditional or Roth. You can choose one or both depending on your tax situation and income. If you have just changed jobs or recently retired, Kemba Delta FCU also offers a Rollover IRA (a traditional IRA typically used to hold only rollovers) to help you take control of your retirement assets and preserve your tax advantages.

A Kemba Delta FCU financial advisor can help you find the appropriate IRA for your situation and help you plan for your financial future.

Comparison	Traditional IRA	Roth IRA
Earnings	Earnings are tax-deferred until withdrawn (IRS early withdrawal penalties may apply if you are under age 59 1/2).	Earnings are tax-deferred and tax-free upon withdrawal if certain requirements are met.
Contributions	Contributions may be tax-deductible depending on your modified adjusted gross income and other factors. You may no longer make contributions for the year in which you reach age 70 1/2; or in later years.	Contributions are not tax-deductible. You may continue making Roth IRA contributions after age 70 1/2 if you have earned income.
Income requirements	No income limit to make contributions; however, you must have earned income to contribute.	Your modified adjusted gross income must be below certain limits depending on your tax filing status.
Distributions	Distributions are required beginning at age 70 1/2.	You are not required to take mandatory distributions at any age during your lifetime. Beneficiaries are subject to minimum distributions rules, but may not have to take a distribution in a specific year.

Should you convert to a Roth IRA?

If your modified adjusted gross income is $100,000 or less and you file a joint return if married, you can convert your traditional IRA or eligible employer retirement plan to a Roth IRA[1]. You will have to pay income taxes on the taxable portion of the amount you convert.

The decision to convert your traditional IRA or eligible employer retirement plan to a Roth IRA is a complex one. Below are some key factors that can help you determine whether you would be a good candidate.

Conversion to a Roth IRA may be appropriate if:

- You have enough money outside of your IRA or employer plan to pay the taxes.
- Your modified adjusted gross income is $100,000 or less.
- You expect to be in the same or higher tax bracket when you retire.
- You have a significant time frame before you need the assets.
- Your tax filing status is not married filing separately.
- One or more of the above bullets is true, and you are willing to give up some of the features of your employer plan in order to gain IRA features, such as nearly unlimited investment options, and possibly more flexible beneficiary options.
- You wish to eliminate having to take Required Minimum Distributions from these funds during your lifetime.

Leaving assets in a traditional IRA or employer plan may be appropriate if:

- You will need to tap your retirement account to pay the taxes on a conversion.
- Your modified adjusted gross income is more than $100,000.
- You expect to be in a lower tax bracket when you retire.
- You don't have a significant time frame before you need the assets.
- A portion of your employer plan is invested in employer stock.
- Your tax filing status is married filing separately.
- You wish to retain some of the features of your employer plan, such as creditor protection and other possible features, including no charges for trades in the account and loan availability.

[1] Beginning in 2010, two important changes are scheduled to take effect for converting an IRA (traditional, SEP or SIMPLE) or other eligible qualified retirement plan to a Roth IRA. First, the income limit for Roth IRA conversions and the prohibition against conversions for tax filing status of married filing jointly will no longer be in effect, allowing more people to take advantage of a Roth IRA (however, income limits for Roth IRA contributions will remain in effect). Second, conversions to a Roth IRA that occur in 2010 will allow the taxpayer to spread the taxable income from the conversion ratably over a two-year period in tax years 2011 and 2012.

The deadline for recharacterizing a 2010 Roth conversion is October 15, 2011. If a recharacterization is not done by that date, the taxpayer will be locked into any tax liability from the conversion, including reporting income ratably over 2011 and 2012 if applicable.