TRADITIONAL & ROTH

IRA

Distributions from Your Traditional or Roth Account

Know when it's time and how to draw from your IRA account.

You may take money out of your Traditional or Roth IRA at any time. Sketch out a plan now to make the *best use* of your funds later.

When and how you draw funds can affect whether you pay taxes on your distributions or are assessed penalties, so it really benefits you to understand the rules before you take money out of your IRA.

What happens if you need to withdraw from your accounts?

- **Your money is always accessible** with both a Traditional and Roth IRA.
- **If you withdraw money from your account before age 59½**, there are instances where penalties and taxes are not assessed, if the money is used for certain qualified purposes.
- **You are required to start taking distributions** once you turn age 73 (age 75 if you were born on or after January 1, 1960) with a Traditional IRA.
- **You can let your account continue to grow indefinitely** with a Roth IRA.

IMPORTANT! Tax rules can be complicated. This brochure is intended to serve as a general overview. Before making any decisions, you should speak with a qualified tax advisor.

With both Traditional and Roth IRAs, your money is there when you need it. However, there are many important differences that are important to keep in mind when determining whether to withdraw from your Traditional IRA or your Roth IRA.

Traditional IRA Distributions

If you deducted your Traditional IRA contributions when you made them, these contributions — plus all investment gains/earnings — will be taxable when you withdraw your money. Distributions taken prior to age 59½ may be subject to penalty. However, in certain situations, you can withdraw without penalty.

These include distributions that are:

- Paid while you are disabled
- Used for a qualifying first-home purchase ($10,000 lifetime maximum)
- Used for certain higher education costs
- Used in a conversion to a Roth IRA
- For a qualifying birth or adoption ($5,000 limit)

While penalties do not apply in these situations, be aware that taxes still apply.

Starting with the year in which you turn age 73 (age 75 if you were born on or after January 1, 1960), you must begin taking distributions from your Traditional IRA. The first of these required minimum distributions (RMDs) must be taken no later than April 1 of the year after the year you turn age 73 (or age 75, if applicable), with distributions for later years taken by December 31. Your annual RMD is calculated by dividing your IRA balance by the factor found on the IRS-provided life expectancy table.

Roth IRA Distributions

You can withdraw funds from your Roth IRA at any time. Assets are distributed in the following order for tax purposes:

- Regular contributions come out first, penalty-free and tax-free.
- Converted funds come out next, tax-free. They are also withdrawn penalty-free, provided these funds are withdrawn after the required five-year period or if an exception applies (e.g., reaching age 59½, becoming disabled, using money for higher education expenses, etc.).
- Earnings come out last. They are penalty-free and tax-free if withdrawn after the required five-year period AND one of these four situations applies: you are over age 59½, disabled, withdrawing for a first-home purchase, or you have died. There are other exceptions that allow you to withdraw earnings penalty-free, but not tax-free.

"Making money is a hobby that will complement any other hobbies you have, beautifully."

– SCOTT ALEXANDER

Your Beneficiary's Options

If your beneficiary is not an individual, the Traditional or Roth IRA, generally, must be closed by the end of the fifth year after the year you die. If you are a Traditional IRA owner who dies after your required beginning date, a non-person beneficiary must withdraw the funds over a period no longer than your remaining single life expectancy.

If your beneficiary is an individual who is *not* an "eligible designated beneficiary," the Traditional or Roth IRA must be closed by the end of the tenth year after the year you die. If you are a Traditional IRA owner who dies after your required beginning date, annual RMDs must be taken during the ten-year period. If your beneficiary is an individual who is an "eligible designated beneficiary," such as your surviving spouse, your child who is a minor, a disabled individual, a chronically ill individual, or an individual who is not more than ten years younger than you, your beneficiary may, generally, choose to withdraw the funds over the course of their own life expectancy starting no later than the end of the year following the year of your death.

If your spouse is your beneficiary, he or she may delay starting the distributions until the later of the end of 1) the year following the year you die, or 2) the year you would have been age 73 (age 75 if you were born on or after January 1, 1960). If your spouse is your beneficiary, he or she has the added option of rolling over or transferring your Traditional or Roth IRA to their own Traditional or Roth IRA, or electing to treat your Traditional or Roth IRA as their own Traditional or Roth IRA. In addition, your spouse has the option to convert your Traditional IRA to a Roth IRA.

FEDERAL CREDIT UNION

partnersfcu.org | 800.948.6677