Planning for Retirement: Understanding Individual Retirement Accounts

What is an Individual Retirement Account (IRA)? An IRA is a way to save for retirement in a tax-advantaged way.

The Basics	Regular IRA	SIMPLE IRA (Savings Incentive Match Plan for Employees IRA)	Roth IRA	SEP (for self-employed people or small-business owners with few or no employees)
Are Contributions Tax Deductible?	Yes, contributions are tax deductible	Yes, contributions are tax deductible	No, contributions are not deductible	Yes, contributions are tax deductible
Do investments earn interest? Is interest taxed?	Interest is earned tax-free until funds are withdrawn (i.e., tax is deferred until funds are withdrawn)	Interest is earned tax-free until funds are withdrawn (i.e., tax is deferred until funds are withdrawn)	Interest is earned tax-free. Earnings withdrawn before age 59 ½ are subject to a 10% penalty.	Interest is earned tax-free until funds are withdrawn (i.e., tax is deferred until funds are withdrawn)
Withdrawal Rules/Penalties **There are some special exemptions to the 10% penalty for early withdrawal for 2020 for COVID-19 related reasons. Read more here.**	You can't withdraw funds from an IRA until age 59 ½ (without penalty). • **Early withdrawal** is subject to a 10% penalty plus the withdrawal is taxed as ordinary income and subject to tax. • **Withdrawals after age 59 ½ have no penalty.** They are treated as ordinary income and subject to tax.	You can't withdraw funds from an IRA until age 59 ½ (without penalty). • **Early withdrawal** is subject to a 10% penalty plus the withdrawal is taxed as ordinary income and subject to tax. • **Withdrawals after age 59 ½ have no penalty.** They are treated as ordinary income and subject to tax.	You can withdraw your contributions whenever you want, without owing any penalties or taxes, because the money you contributed is money on which you already paid income tax. • Early withdrawals (before age 59½) of your investment earnings (interest) are subject to a 10% penalty • People 59½ years or older holding accounts for at least 5 years can withdraw funds (contributions and earnings) without paying federal taxes.	You can't withdraw funds from an IRA until age 59 ½ (without penalty). • **Early withdrawal** is subject to a 10% penalty plus the withdrawal is taxed as ordinary income and subject to tax. • **Withdrawals after age 59 ½ have** no penalty. They are treated as ordinary income and subject to tax.
Income eligibility limits	If your spouse has a retirement plan at work, there is an income limit of $124,000 for married couples filing jointly. If your spouse does **NOT** have a retirement plan at work, there is no income limit.	No income limits	Maximum of $206,000 for married couples filing jointly, $139,000 for single filers	No Income Limits

The Basics	Regular IRA	SIMPLE IRA (Savings Incentive Match Plan for Employees IRA)	Roth IRA	SEP (for self-employed people or small-business owners with few or no employees)
Maximum Contribution	The contribution limit is $6,000 (plus an extra $1,000 if you are age 50+)	The contribution limit is $13,500 (plus an extra $3,000 if you are age 50+)	The contribution limit is $6,000 (plus an extra $1,000 for age 50+)	In 2020, contributions are limited to 25% of compensation or $57,000, whichever is less
Tax Treatment Upon Retirement	Contributions and interest taxed (although potentially at a lower tax rate than when you were working earning a higher income)	Contributions and interest taxed (although potentially at a lower tax rate than when you were working earning a higher income)	Since you did not benefit from a tax deduction on your contributions, this money is available to you tax-free.	Contributions and interest taxed (although potentially at a lower tax rate than when you were working earning a higher income)
More information from the IRS	IRS FAQs on IRAs	IRS FAQs on SIMPLE IRAs	IRS FAQs on Roth IRAs	IRS FAQs on SEP contributions

Tax Credit for retirement contributions to any IRA for low-income savers

There is a tax credit for retirement contributions to any IRA for low-income individuals. This tax credit is in addition to the regular tax benefits of IRA contributions (e.g., any tax deduction you take for annual contributions to an IRA to save for retirement). There are income limits that apply.

- Up to $65,000 for married couples filing jointly and $32,500 for single filers

The credit is 10%, 20%, or 50% of your contribution depending upon your income level. The tax credit applies to contributions of $2,000 or less annually (e.g., a maximum credit at the 50% rate for a $2,000 contribution would be $1,000). More information about the tax credit for low-income savers is located on the IRS web site here.

For additional information about money management and retirement planning, check out Tom Copeland's recorded webinar **here**.