IRA Podcast Script

Financial wellness is just like anything else: It takes a little discipline, and some good advice. At Golden 1 we want to help. As a not-for-profit, member-owned credit union, our main goal is to help people like you reach your goals. Providing unbiased financial advice and education is another way of doing just that. So, whether you're trying to make a major purchase, start an investment fund, or just sleep better at night, let Golden 1 be your financial partner and we'll all be stronger together.

Hello, and welcome to this episode of the Golden 1 Podcast. I'm Martin, and I'm here with Rebecca.

I'm Rebecca.

And we are with Golden 1 Credit Union. Today's topic is IRAs, or Individual Retirement Accounts. What are they? Why do you need one? How hard is it to get one?

And before we get started, let's go over some housekeeping items: This podcast is for educational purposes only. It's not specific advice for your own finances. For specific advice, please consult your own tax professional, financial advisor, or attorney.

Thanks, Rebecca.

Let me start by saying that there's no better time to start saving for retirement than right now. Whether you're just beginning your career, planning for a family, or approaching retirement, it's never too late – or too early – to start saving with a Traditional or Roth IRA.

Rebecca, why don't you get our listeners started with information about a Traditional IRA?

Sure! The Traditional IRA allows you to take money that you've earned and put it toward investments that can grow tax-deferred.

That means the income you earn on these investments won't be taxed until you take it out. You won't have to pay capital gains or dividend income, either. And the contributions you make to a Traditional IRA may be tax-deductible, depending on your income, tax-filing status, and other factors.

But how do you know if you're eligible for a Traditional IRA?

It's simple! A person who has earned income, and their spouse if married filing jointly, can contribute to a Traditional IRA up until the year they turn 70½.

OK, but how much can you put in your IRA each year?

You can contribute 100% of any earned income up to the following limits: If you're under age 50, you can contribute up to $6,000 to your IRA in 2019. If you're 50 or older, you can contribute up to $7,000.

So, Traditional IRAs have a lot of benefits. We've already mentioned two: They offer tax-deferred growth potential, and you may be able to deduct all or part of the money you put in.

That's right, Martin. And here are two more benefits:

Traditional IRAs accept tax-free rollovers from qualified employer-sponsored retirement plans, like 401(k), 403(b), or 457(b) governmental plans. You can also make transfers from other IRAs, including SEP and SIMPLE IRAs.

This all sounds great, but there are a few things to think about … For example, if you ever need to take money out of your

Traditional IRA, that amount will be taxable and included with your yearly income.

Not only that, but there will be a 10% IRS tax penalty on any money you take out before you're 59 ½ years old. There are some exceptions to that, and we'll talk about those later.

Rebecca, you said before that Traditional IRAs offer tax-deferred growth potential. What does that mean?

It means that you don't pay taxes on any investment earnings until you withdraw or "distribute" the money from your account, hopefully in retirement.

Plus, as we explained before, depending on your income, your contribution may be tax deductible.

So let's come back to the present and talk about tax deductions.

When you make contributions to a Traditional IRA, you may be able to deduct them on your taxes. That can help lower your taxable income for the current year.

Your eligibility to deduct is based on two factors. The first is your Modified Adjusted Gross Income.

You're probably familiar with your Adjusted Gross Income. It's an important number you've seen on your tax return. For most people, their MODIFIED Adjusted Gross Income is the same as their Adjusted Gross Income. But for some people it will be different, so you'll need to check with your tax professional to be sure.

Or if you love reading government forms and doing math, you can google the instructions and calculate it yourself.

So how does your Modified Adjusted Gross Income affect your ability to deduct IRA contributions? And can I stop saying Modified Adjusted Gross Income? It's really long.

Sure. Let's just call it your income. And taxpayers with lower income are able to deduct a larger percentage of their IRA contribution than someone with more income.

Martin, what's the second factor for deducting your contributions?

The second factor is whether you're covered by an employer-sponsored retirement plan at work. Or if you're married, it's whether you and/or your spouse is covered. Look at Box number 13 of your W-2 form. If it has a check mark next to "Retirement Plan," then this applies to you.

For up-to-date information on contribution limits, tax advantages, and filing status regulations, visit our IRA information webpage at www.golden1.com/accounts/ira

Now, I think we should talk about taking money OUT of your Traditional IRA, or as it's called, taking distributions.

Any time you take money out of your Traditional IRA, you'll owe income tax on that amount. If you take distributions before you're 59 1/2, you may ALSO owe a 10% IRS tax penalty.

There are exceptions, though. The 10% penalty doesn't apply in the following cases:

Death or disability

Certain eligible medical expenses

Health insurance premiums for certain unemployed individuals

Qualified first-time homebuyers (with a lifetime maximum of $10,000)

Qualified higher-education expenses

Converting your Traditional IRA funds to a Roth IRA

A highly-regulated longterm distribution program called Substantially Equal Periodic Payments or SEPP

Certain qualified distributions made to a military reservist or member of the National Guard who has been called to active duty

Or a levy by the IRS.

With these exceptions you can take out money without the 10% IRS tax penalty. Keep in mind, though, you'll probably owe ordinary income tax on any amount you take from your Traditional IRA.

One last thing to think about with a traditional IRA is that you'll be subject to a Required Minimum Distribution starting at age 70 ½.

This means that you'll have to start taking money out of your IRA at least once a year. The IRS decides how much you need to take out depending on your life expectancy. And once you start taking these Required Minimum Distributions, you won't be able to contribute any more money to your IRA.

I know! We threw a lot of numbers and facts at you all at once. Let's see if we can break down the benefits of a Traditional IRA in a story:

You're a 32-year-old with nothing saved for retirement, but you just got your dream job! Congrats! Your new employer has a

401(k) plan, but you decide that you want to save even more towards retirement so you open up a Traditional IRA. Maybe $4,000 is all you can save every year, but that's OK. Any amount of savings is good! If you want to retire at 65, your $4,000 a year will turn into more than $500,000.

$500,000 is a great amount! Now remember, since your Traditional IRA contributions aren't taxed when you deposit them, they WILL be taxed when you withdraw the money.

The good news is you'll probably still have more than $400,000 after taxes! This nest egg, on top of the 401(k) money you saved through your job, means that you'll be in great shape come retirement!

So, now you know what a Traditional IRA is, but what's a Roth IRA? Martin, you want to explain this?

Sure thing, Rebecca. A Roth IRAs is another tool for saving money with tax-advantaged growth.

The main difference between a Roth and Traditional IRA is WHEN you get your tax break. With a Traditional IRA, you don't pay taxes on the money you contribute, the year that you earn it. But you pay taxes later when you take out the money.

Roth IRAs are the opposite. You pay taxes on the money that goes in, but you don't pay taxes when you take money out, under most circumstances.

A Roth IRA is a good choice if you'd rather pay taxes when you put the money in and take out money tax-free when you retire.

Plus, it's good if you don't want to be required to take out money beginning at age 70 ½. Or if you expect to be in the same or a higher tax bracket in retirement.

Rebecca, isn't it true that with a Roth IRA, some withdrawals can be done without paying taxes or penalties?

Yes, Martin! Those are called QUALIFIED DISTRIBUTIONS.

Distributions are considered "qualified" after your account has existed five years, plus at least one of the following conditions:

You're over 59 ½ years old, or you are using the qualified first-time homebuyer exception, or as a result of your death or disability.

On the other hand, NON-qualified distributions can be taxed and you could owe the 10% IRS tax penalty.

And here's another big difference with a Roth IRA.

Since you already paid taxes on the money you contributed, you can consider your contributions to be in a different bucket than the IRA's investment earnings.

You CAN withdraw your contributed funds at any time without paying taxes. Only the earnings are subject to taxes and penalties.

And what about taking money out?

Well, as we mentioned before, you can withdraw your *contributions* at any time, free of tax or penalty.

Beyond that, Roth IRAs have two types of distributions: qualified and non-qualified. Qualified distributions are tax and penalty free.

Does that mean that with NON-qualified distributions you have to pay taxes and the 10% IRS penalty? Sometimes.

Non-qualified distributions follow ordering rules. The funds are distributed in a certain order from the buckets in your account.

Contributions come out first. Because Roth contributions aren't deductible, you already paid taxes on them. So they're not subject to taxes or the 10% IRS tax penalty and you can take that money out at any time.

After you've taken out all your contributions, the next bucket to be tapped for distribution is the one holding conversion funds. That's money that you've transferred from another account.

For example, you may have converted a Traditional IRA to a Roth IRA. These conversion dollars are distributed on a first-in, first-out basis. You won't owe taxes on this distribution, but you may owe the 10% IRS penalty. Money that you take out before you are 59½, or before you've met the five-year holding period for each conversion, will incur the penalty unless there's an exception. Each conversion is subject to a separate five-year holding period.

The last amount you can withdraw is from investment earnings - money that your IRA has earned on your contributions. If you take earnings out as part of a qualified distribution, they aren't taxed. If it's a non-qualified distribution, they're subject to taxes and the 10% IRS penalty, unless another exception applies.

Plus, we need to tell you that all of your Roth IRAs are aggregated under the distribution ordering rules. In other words, they are considered to be combined.

If you have three Roth IRAs, all of the money in the contribution buckets from accounts 1, 2, and 3 will be distributed. Then the conversion money from all three accounts. And the earnings last.

I know! This is a lot of information! Don't worry about remembering all these rules word for word. We can help. Download our IRA guide at golden1.com/financialwellness.

So Martin, there are exceptions to the 10% IRS penalty for non-qualified distributions. What are they?

They're pretty similar to the exceptions for a Traditional IRA.

Okay. We have one more subject to cover…

There are times when it might be a good idea to take money from a Traditional IRA and put in a Roth IRA. That's called a Conversion.

A Roth IRA conversion is when you take money from a Traditional, SEP or SIMPLE IRA, or from an employer-sponsored retirement plan such as a 401(k), and move it to a Roth IRA.

At the time you transfer the money, you'll have to pay taxes on the total amount of money because it's never been taxed before. Good news, though, you won't have to pay the 10% IRS tax penalty. And when you retire, your distributions will be tax-free.

Not having to pay taxes in my retirement sounds pretty good to me.

Sure does. But remember to talk to your tax advisor about your specific situation before you decide to go transferring money from one account to another.

We hope IRAs are less of a mystery to you now. Remember, we're here to help.

> Please feel free to reach out to us if you have any follow-up questions. Just send us an email at financialwellness@golden1.com.

> And visit our Financial Wellness Center at www.golden1.com/financialwellness. You can download an IRA fact sheet and find information on budgeting, credit, saving, and much more!

This has been Martin.

> And Rebecca.

For Golden 1 Credit Union.

This podcast was presented by Golden 1 Credit Union, who encourages all of us to become better managers of our own money, because taking charge own finances makes us all stronger together.