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A Financial Planning Update

Traditional IRAs—Forgotten, But Not Gone

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With the number of financial products available in today's retirement savings marketplace, the traditional **Individual Retirement Account (IRA)** can get easily overlooked, despite the potential for tax deferral and income tax deduction for individuals under the age of 70½. Here are some categories of savers who may benefit from a traditional IRA retirement savings account:

Individuals without a retirement plan. Single taxpayers who are not part of an employer-sponsored retirement plan (e.g., **401(k) plan**) may benefit the most from using a traditional IRA. The same holds true for married taxpayers whereby neither spouse is a participant in an employer-sponsored retirement plan. Each individual can then contribute up to $5,500 in 2018 ($6,500 for individuals who are age 50 and older) annually to an IRA without meeting any income eligibility requirements, and may deduct their entire contribution for income tax purposes.

Some individuals covered under an employer-sponsored plan. Any individual who is a participant in an employer-sponsored retirement plan may contribute up to $5,500 in 2018 ($6,500 if age 50 and older) to an IRA, but whether or not that contribution can be *deducted* for income tax purposes depends on the taxpayer's **adjusted gross income (AGI)**. Deductions in 2018 phase out for single filers with **modified AGIs (MAGIs)** between $63,000 and $73,000, and for married couple joint filers with MAGIs between $101,000 and $121,000.

Working children. One commonly overlooked savings opportunity is for a working child to start making contributions to his or her own IRA. Many high school- and college-aged students work part-time during the summer, school vacations, and even the school year. In addition to instilling excellent saving habits, contributing to an IRA at an early age can give a child a significant head start in saving for retirement.

Individuals who are retiring or changing jobs. An IRA can allow an individual who is retiring to postpone taxation of his or her retirement plan proceeds. Likewise, an IRA can achieve similar tax benefits for individuals who are changing employers. A special type of traditional IRA—the **rollover IRA**—is used to accept the plan proceeds upon termination of employment. When properly executed, a rollover IRA avoids current income taxation, any unnecessary withholding of taxes by the former employer, and the 10% Federal income tax penalty for early withdrawals. It also allows the IRA owner to actively manage his or her IRA assets.

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