

## Personal Financial Strategies

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Hampton, NH



Personal  
Financial Strategies

Retirement Planning:

**Invest in an** IRA before Tax Day



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Before You Begin: Advisors should only recommend an advisory account if it is suitable for the client. Advisory accounts may not be appropriate for every client. Advisors need to understand that advisory relationships involve a higher standard of care than brokerage and typically require an ongoing duty to provide advice and monitoring.

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# IRA BASICS

An individual retirement account (IRA) is a type of investment vehicle that offers potential tax breaks for saving money for retirement. It remains an effective way to save for the future.

The IRA itself is not an investment, it's just the tax-advantaged home in which your funds and annual contributions reside. Once you've opened your IRA, you can use the money you contribute to purchase stocks, mutual funds, bonds, etc., just like you would with any other investment account.



The main advantage of an IRA over other investment accounts is that your earnings can grow tax-deferred as long as they're in the account.

The specific tax incentives depend on which type of IRA you choose.

# TYPES OF IRAs

There are two main types of IRAs:

- Traditional IRA
- Roth IRA

Both offer the potential for tax-advantaged growth of your money while invested, but the main difference between the two is whether you reap the potential tax benefits upon contributing to or withdrawing the funds.

Traditional IRA earnings grow tax-deferred, while Roth IRA withdrawals are tax-free (if you meet the timing requirements).

There are some other important differences, such as withdrawal stipulations, as well as eligibility requirements concerning your adjusted gross income (AGI) and marital status. In fact, it's not uncommon for investors to have both traditional *and* Roth IRAs to increase the diversification of their tax benefits.

Let's look at each one in more detail to determine what makes the most sense for your retirement plan and investment strategy.

# TRADITIONAL IRA

A traditional IRA allows you to contribute up to a specific amount each year. Often, you can deduct this annual contribution from your pre-tax income to potentially reduce your tax burden.

If you're under 50, the maximum yearly contribution is \$5,500. If you're 50 or older, the maximum annual contribution is \$6,500 per year. You'll only pay income taxes on the money in your account once you begin to make withdrawals.

If you decide to withdraw any funds from your IRA account before you reach age 59½, you'll need to pay a 10% penalty on the amount of the withdrawal, in addition to the income tax. Traditional IRAs also require you to start taking withdrawals called "required minimum distributions" once you turn 70½. The IRS calculates this amount based on your life expectancy and how much you have saved in your account.

Additionally, there could be some limits to your deduction based on your income:

## Traditional IRA Contribution Limits for 2018

Filing Status	Full deduction if modified AGI is...	Partial deduction if modified AGI is...	No deduction if modified AGI is...
<b>Married filing jointly</b> And you're covered by a retirement plan at work	\$101,000 or less	\$101,000 but less than \$121,000	\$121,000 or more
<b>Married filing jointly</b> And your spouse is covered by a retirement plan at work	\$189,000 or less	More than \$189,000 but less than \$199,000	\$199,000 or more
<b>Single or head of household</b>	\$63,000 or less	More than \$63,000 but less than \$73,000	\$73,000 or more
<b>Married filing separately</b> and you or your spouse is covered by a retirement plan at work	Not available	Less than \$10,000	More than \$10,000

# ROTH IRA

Roth IRAs are a bit different. Your contributions aren't tax deductible now, but you won't pay any taxes on your earnings when you withdraw the funds, as long as you've held the account for five years and are age 59½.

Once you reach age 59½ or the account has been open for five years (whichever is later), there is no withdrawal penalty, and the yearly contribution maximums are the same as a traditional IRA (\$5,500 if you're under 50, \$6,500 if you're 50 or older), as long as you have taxable income. But unlike a traditional IRA, there are no required minimum distributions to withdraw at age 70½. You can leave the funds in your account to grow tax-free for as long as you like.

You're also able to convert a traditional IRA to a Roth IRA, but withdrawals will be subject to a penalty until five years after the conversion. Note that there are age and income restrictions for conversions, and the converted amount is generally subject to income taxation.

Similar to a traditional IRA, there might also be limits to your maximum contribution amounts or general eligibility based on your income:

## Roth IRA Contribution Limits for 2018

Filing Status	Modified AGI	Maximum contribution
<b>Married filing jointly or qualifying widow(er)</b>	Less than \$189,000	\$5,500 (\$6,500 if 50 or older)
	\$189,000 to \$198,999	Contribution is reduced
	\$199,000 or more	Not eligible
<b>Single, head of household or married filing separately (if you did not live with your spouse during year)</b>	Less than \$120,000	\$5,500 (\$6,500 if 50 or older)
	\$120,000 to \$134,999	Contribution is reduced
	\$135,000 or more	Not eligible
<b>Married filing separately (if you lived with spouse at any time during year)</b>	Less than \$10,000	Contribution is reduced
	\$10,000 or more	Not eligible

# EARLY WITHDRAWAL OF FUNDS

Traditional IRAs require you to be age 59½ to avoid paying a 10% penalty when you withdraw funds from the account (although you can always withdraw Roth contributions penalty-free—just not the earnings). However, there are some special circumstances that could allow you to withdraw money without necessarily paying the penalty, such as:



Making health insurance payments for you, your spouse, or your dependents after receiving unemployment compensation for 12 consecutive weeks.



Buying your first home. Withdraw up to \$10,000 penalty-free (\$20,000 for a couple) for the purchase, building, or rebuilding of your first home, or the first home of a child, parent, or grandparent.



Assisting with expenses if you become disabled such that you are unable to be gainfully employed due to a physical or mental condition.



Paying college expenses for you, your spouse, your children, or grandchildren (books, fees, tuition, housing, etc.).

# SO, WHICH IRA IS RIGHT FOR ME?

If you expect lower taxes in retirement, a traditional IRA could be the way to go. If you expect higher taxes, a Roth might be best. That's because these accounts offer very different tax treatments.

When you retire and start drawing money from your investment accounts, do you anticipate that your tax rate will be higher than it is right now?

**If you answered "yes," consider choosing a Roth IRA.** In the future you'll likely be moving to a higher rung of the income ladder, and since withdrawals from a Roth IRA are tax-free, you won't owe taxes when you reach retirement age and start drawing from your account.

**If you answered "no," a traditional IRA may be a better choice.** High earners tend to migrate to lower tax brackets upon retirement, so it can make sense for them to take the up-front tax deduction these accounts offer during their working years — and absorb the income tax hit down the road in retirement when their tax rate is lower.

Unsure how your future tax rate will compare to your current one? Consider splitting the difference: You can contribute to both a traditional IRA and a Roth IRA in the same year, as long as the total amount you invest is within allowable limits.

	Roth IRA	Traditional IRA
<b>Eligibility</b>	<b>Age:</b> Any age, with taxable employment compensation <b>Income:</b> Income must be below a certain threshold to make contributions	<b>Age:</b> Under age 70.5, with taxable employment compensation <b>Income:</b> No income limits to make contributions
<b>Contribution Limits</b>	Age <50: \$5500 per year Age 50+: \$6500 per year (capped at level of compensation)	Same
<b>Tax Benefits</b>	Tax-free earnings growth Tax-free withdrawals	Tax-deferred earnings growth Typically tax-deductible contributions (up to a limit if total earnings are above a certain level)
<b>Taxation at Withdrawal</b>	Contributions are never taxed upon withdrawal Earnings are tax-free (at federal level) after 5 years and certain other conditions are met	Withdrawals of pre-tax earnings and any investment income are taxed upon distribution
<b>Required Minimum Distributions (RMDs)</b>	None	Beginning at age 70.5

Regardless of whether you choose a traditional or Roth IRA, an IRA can be a helpful element of a well-rounded retirement plan.

# WHY MAKE YOUR 2018 IRA CONTRIBUTION BEFORE TAX DAY?

When it comes to retirement investing, time is of the essence. Open or contribute to an IRA by Tax Day, April 15, 2019, to take full advantage of:

Investing toward  
your future

An IRA remains an effective way to save for retirement.

Tax benefits

In both traditional and Roth IRAs the investments in your IRA grow tax-deferred, meaning you owe nothing on the gains so long as the money remains in the IRA.

Build beyond  
your 401(k)

IRAs allow individuals to contribute up to \$5,500 per year; that's on top of what you can invest annually in your 401(k) or other employer-sponsored retirement plans.

# OPEN YOUR IRA TODAY

1

## Beat the Tax Day Deadline

April 15th is the deadline to make your 2018 IRA contribution.

2

## Contact Personal Financial Strategies

For personalized advice about your IRA options and step-by-step guidance, set up an appointment with me:

Anne Murray  
603-929-3636  
anne.murray@lpl.com

3

## Open Your IRA

Together, we will discuss what IRA option may be best for your individual situation.

Every person has his or her own set of personal and financial goals. At Personal Financial Strategies it is our mission to honor those goals.

# DISCLOSURES

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Diversification does not protect against market risk.