



Securities offered through INFINEX INVESTMENTS, INC. Member FINRA/SIPC

# INDIVIDUAL RETIREMENT PLANS (IRAs & ROLLOVERS)

Quick Guide

---

Investment and insurance products and services are offered through INFINEX INVESTMENTS, INC. Member FINRA/SIPC.

Essex Services, Inc. is a subsidiary of the bank. Infinex is not affiliated with either entity.

Products and services made available through Infinex are not insured by the FDIC or any other agency of the United States are not deposits or obligations or nor guaranteed or insured by any bank or bank affiliate. These products are subject to investment risk, including the possible loss of value.

# *Table of Contents*

---

<i>Individual Retirement Accounts .....</i>	1
Roth IRAs .....	1
The Traditional IRA.....	1
Catch-Up Contributions.....	1
Will My Contribution Be Deductible?.....	1
Who Is Covered by an Employer Retirement Plan? .....	1
What Is Modified Adjusted Gross Income?.....	2
Is Your IRA Contribution Tax-Deductible? .....	2
The Traditional IRA vs. the Roth IRA .....	3
What Type of Assets Can You Contribute to Your IRA? .....	3
Setting up an IRA .....	4
Investment Considerations for Your IRA.....	4
When Is the Best Time to Contribute?.....	4
Spousal IRAs .....	5
Advantages and Disadvantages of IRA Accounts .....	5
<i>Rollovers.....</i>	5
Rollovers to Your IRA.....	5
Converting a Traditional IRA to a Roth IRA .....	6
Roth IRA and 401(k) .....	6
Choosing between the Roth IRA and Other Vehicles .....	6

*CAUTION: This guide is intended to introduce some of the basic issues and steps involved in investing. It is not intended to be all-inclusive. There are many issues and topics to be addressed in making investments, and working with a qualified professional is strongly recommended.*

# *Individual Retirement Accounts*

## **Roth IRAs**

The Roth IRA allows you to save money on a tax-free basis, provided you meet the eligibility requirements and the holding period rules.

The Roth IRA allows for non-deductible contributions up to \$5,500 in 2016 (same in 2015), no matter what your age (provided you have earned income), and presents an opportunity to receive tax-free income when the funds are withdrawn. If you are age 50 or older, you can contribute a total of \$6,500 to a Roth IRA. The 2016 dollar limit is reduced if modified adjusted gross income (AGI) is above \$184,000 (\$183,000 in 2015) if filing a joint return and \$117,000 if single (\$116,000 in 2015), and is \$0 if modified AGI is above \$194,000 (\$193,000 in 2015) for joint returns and \$132,000 if single (\$131,000 in 2015); i.e., you cannot contribute to a Roth IRA above these income levels. If your filing status is married filing separately and you lived with your spouse during the year, the phase-out range of modified AGI is \$0 to \$10,000. However, if you file a separate return and did not live with your spouse at any time during the year, you are not treated as married for the purpose of these limits, and the applicable dollar limit is that of a single taxpayer.

The Roth contribution limit is also reduced for amounts contributed to a traditional IRA.

Tax-free distributions may be made from a Roth IRA if the IRA is held for at least five years, and if the distributions are made after age 59½, or because of death or disability. Penalty-free distributions are also allowed for "first-time homebuyers," subject to a \$10,000 lifetime limit. The amount of distribution that represents earnings is subject to ordinary income tax if the IRA is held for less than five years and distributed prior to age 59½.

**SUGGESTION:** The required minimum distribution rules for traditional IRAs do not apply to Roth IRAs. Distributions from Roth IRAs need not begin at age 70 1/2.

## **The Traditional IRA**

You can establish a traditional IRA whether or not you are covered by any other retirement plan. Wages or net earnings from self-employment can serve as the basis for a traditional IRA contribution. You and your spouse can make regular IRA contributions of up to \$5,500 in 2016 (same in 2015), provided your

combined compensation (earnings) are at least equal to the contributed amount. As a result, a couple can make regular contributions of up to \$11,000 in 2016 (same in 2015).

You can wait as long as April 15 of the following year (the due date of your individual income tax return) to contribute to a traditional or Roth IRA account.

## **Catch-Up Contributions**

In addition to regular IRA contributions as described above, special catch-up contributions can be made annually to both traditional and Roth IRAs if you are at least age 50 by the end of the calendar year. For individuals who meet this age requirement, the regular contribution is increased by \$1,000 in 2016 (same in 2015). This catch-up contribution is based solely on your age, and is not affected by the amount of contributions you have made to an IRA in the past.

Your choice of whether or not to invest in an IRA will be influenced by whether or not your contribution is tax deductible. If you're a low- or middle-income taxpayer, part of your IRA contribution may be eligible for a tax credit. You may also want to look at the section *Choosing between the Roth IRA and Other Vehicles* for a comparison between a traditional IRA and other investments.

## **Will My Contribution Be Deductible?**

Whether or not you can take a tax deduction for your or your spouse's traditional IRA contribution, depends primarily on three factors:

- Whether you or your spouse are covered by an employer retirement plan
- Your (and your spouse's) modified adjusted gross income
- Your (and your spouse's) income tax filing status

## **Who Is Covered by an Employer Retirement Plan?**

An employer plan includes a qualified pension, profit sharing, stock bonus, 401(k), and/or money-purchase pension plan. Employer plans also include tax-sheltered annuity plans for employees of public schools and certain tax-exempt organizations, simplified employee pensions (SEPs), SIMPLE plans, and qualified annuity plans.

An individual is covered by an employer plan if he or she is, by definition, an active participant in an

employer retirement plan. A *covered individual can make contributions to an IRA, but the contribution may not be fully deductible.*

To be covered, you must be considered an active participant. Check with your employer to determine the definition of active participant for your retirement plans.

**IMPORTANT NOTE:** Even if you are covered by an employer's plan for only one day, the deductibility rules will apply to any contributions made during the year. So if your primary reason for contributing to an IRA early in the year is solely to receive a tax deduction, make sure that at some point later on in the year you, or your spouse, are not going to be considered an active participant in a retirement plan.

**SUGGESTION:** Your annual W-2 Form received from an employer will indicate if you are an active participant in a retirement plan.

**IMPORTANT NOTE:** If either you or your spouse is covered by an employer plan, you are each subject to certain deductibility limitation rules. See the section Is Your IRA Contribution Tax Deductible? for more information.

#### **What Is Modified Adjusted Gross Income?**

If you or your spouse is covered by an employer retirement plan, the tax deductibility of your IRA contribution depends on your modified adjusted gross income and your income tax filing status. Adjusted gross income (AGI) is basically your total income, less net business losses, net allowable capital losses, IRA and Keogh contributions, and alimony. Generally, modified AGI is your AGI computed without subtracting your, or your spouse's, IRA deduction.

Once you know your modified AGI, your participation status in employer qualified plans, and your income tax filing status, you can look at the following table to determine if your IRA contribution is fully deductible, partially deductible, or nondeductible.

Income Tax Filing Status		You (and your spouse) are covered by an Employer Plan	
Married Filing Jointly/ Surviving Spouse	Single or Head of Household	Yes	No
<b>Modified Adjusted Gross Income, 2016 (and 2015) Tax Year</b>			
\$98,000 or under (same in 2015)	\$61,000 or under (same in 2015)	Fully deductible	Fully deductible
Between \$98,001 and \$118,000 (same in 2015)	Between \$61,001 and \$71,000 (same in 2015)	Partially deductible	Fully deductible
\$118,000 or over (same in 2015)	\$71,000 or over (same in 2015)	Nondeductible	Fully deductible

#### **If you are married and only one spouse is covered by an Employer Plan:**

If one spouse is an active participant in an employer plan and the other spouse is not, the non-participant spouse may make a deductible IRA contribution; however, the deduction is phased out in 2016 for couples with modified AGI between \$184,000 and \$194,000 (\$183,000 and \$193,000 in 2015). If 2016 modified AGI exceeds \$194,000 (\$193,000 in 2015), no deduction will be allowed for the spouse of an active participant.

#### **Is Your IRA Contribution Tax-Deductible?**

*If your filing status is Married Filing Separately (MFS), and you are covered by an employer retirement plan:*

If you lived with your spouse during the year, the phase-out range of modified AGI to determine your IRA deduction is \$0 to \$10,000. If you file a separate return and did not live with your spouse at any time during the year, you are not treated as married for the purpose of these limits, and the applicable dollar limit is that of a single taxpayer.

*If your filing status is Married Filing Separately (MFS), and you are not covered by an employer retirement plan:*

If you lived with your spouse who is covered by an employer retirement plan, the phase-out range of modified AGI to determine your IRA deduction is \$0 to \$10,000. However, you are entitled to a full IRA deduction if you did not live with your spouse at any time during the year.

**SUGGESTION:** A full IRA deduction is available if neither you nor your spouse is covered by a retirement plan during the year, regardless of your modified AGI.

**IMPORTANT NOTE:** If your IRA contribution is nondeductible, don't forget to file Form 8606, Nondeductible IRA Contributions, with your tax return. This will provide a record of your after-tax contributions so the money can't be taxed a second time when you withdraw it.

**SUGGESTION:** Deductible IRA contributions are taken on your individual income tax return. Deduct the contributions to your IRA on Page 1 of Form 1040, under the section Adjustments to Income.

Modified adjusted gross income limits that apply to active participants in employer retirement plans:

Married Filing Jointly/Surviving Spouse	Single or Head of Household
\$98,000 to \$118,000 (same in 2015)	\$61,000 to \$71,000 (same in 2015)

#### ***Tax Credit for IRA Contributions***

Low to middle income taxpayers may be eligible for a tax credit (also known as the 'saver's credit') for contributions made to a traditional or a Roth IRA. To qualify for the tax credit in 2016, adjusted gross income must be less than \$61,500 (\$61,000 in 2015) if married filing a joint return, and \$30,750 (\$30,500 in 2015) if single, or \$46,125 (\$45,750 in 2015) if head of household. The maximum credit rate is 50%, and the maximum contribution amount that may be used for calculating the credit is \$2,000. Thus the maximum credit amount is \$1,000.

#### **The Traditional IRA vs. the Roth IRA**

The following chart illustrates the differences between the traditional IRA and the Roth IRA. Use the information to help you decide which IRA best suits your situation.

Traditional IRA	Roth IRA
Maximum annual contribution = \$5,500 in 2016, \$6,500 in 2016 for those reaching age 50 by December 31, 2016.	Maximum annual contribution = \$5,500 in 2016, \$6,500 in 2016 for those reaching age 50 by December 31, 2016.
If neither you nor your spouse is covered by a workplace retirement plan, the IRA contribution is fully deductible. If you or your spouse is covered by a workplace retirement plan, the IRA contribution deduction may be limited or completely phased-out.	Contributions are not deductible.
Anyone can establish a traditional IRA.	In order to establish a Roth IRA, your 2016 modified adjusted gross income, if filing a joint return, cannot exceed \$194,000 (\$193,000 in 2015) and \$132,000 (\$131,000 in 2015) for singles.
Contributions and earnings grow tax-deferred until withdrawal.	Contributions and earnings grow tax-free and withdrawals are tax-free, provided the IRA is held for at least five years and withdrawals begin after age 59½ or are due to death or disability, or for "first-time home buyers" subject to a \$10,000 limit.
Contributions are not allowed after age 70½.	Contributions are allowed after age 70½, provided you have earned income.
Withdrawals must begin at age 70½.	Withdrawals do not have to begin at age 70½.
Penalty-free withdrawals can be made for a qualifying first-time home purchase, subject to a \$10,000 lifetime limit.	Provided the IRA is held for at least five years, penalty-free, tax-free withdrawals can be made for a qualified first-time home purchase, subject to a \$10,000 lifetime limit.
Penalty-free withdrawals can be made for higher education expenses of the taxpayer, spouse, children, or grandchildren.	Penalty-free withdrawals can be made for higher education expenses of the taxpayer, spouse, children, or grandchildren.

#### **What Type of Assets Can You Contribute to Your IRA?**

Except for rollover contributions (see the section *Rollovers to Your IRA*), all contributions to an IRA must be made in cash. No deduction is allowed for any contributions of property other than cash. Cash means currency or negotiable instruments. Once the IRA account is established, the funds can generally be invested in almost any type of investment.

**IMPORTANT NOTE:** An IRA cannot be invested in collectibles. Collectibles include any work of art, rug, antique, gem, stamp, coins (other than certain gold or silver coins issued by the U.S. and certain state-issued coins), alcoholic beverages (such as vintage wines), musical instruments, historical objects, or any other item the IRS deems to be a collectible.

## Setting up an IRA

Most financial institutions act as trustees for individual retirement accounts. Opening an individual retirement account is as easy as walking into your local bank. All that is required is that you complete a separate IRA application. Here are some things to keep in mind when setting up an IRA:

Most institutions charge setup fees and annual maintenance fees. They can range from \$10 to \$50. But don't let this ultimately make your decision for you. Always consider the underlying investment first.

If you have three or four different accounts, each charging their own IRA maintenance fees, consider moving them to one account.

Don't be concerned that you don't have enough money to open an IRA. IRA accounts generally have lower minimum account size requirements than regular accounts. Some accounts can be opened for as little as \$100.

If you want the ability to transfer your investments, make sure the selected investment does not have any restrictions of its own.

**IMPORTANT NOTE:** The combined balance of retirement plan accounts on deposit with banks and credit unions is insured up to a maximum of \$250,000. For example, IRA balances are not insured separately from and in addition to Keogh balances.

## Investment Considerations for Your IRA

Before you invest, you should consider some important questions:

- What are your retirement income needs? Should you invest in riskier investments that may produce higher returns?
- What is the interest rate, if applicable, and will it fluctuate over the life of the investment?
- What are the administrative fees or commissions that a particular investment will charge?

**SUGGESTION:** Interest-bearing vehicles, such as bonds, are taxed as ordinary income annually. Purchased inside a traditional IRA, you are deferring tax until you make a withdrawal (the income is tax-free in a Roth IRA). Growth-oriented investments, such as non-dividend paying stocks, are taxed at the more favorable capital gains rates when sold after a 1 year holding period. So, while your investment may substantially increase in value over a long period of time, you avoid taxes on the gain until sold. Putting that same stock inside a traditional IRA, you lose the more favorable capital gains treatment because the investment is taxed at ordinary income tax rates upon distribution. Keeping these two issues in mind, you should invest your IRA funds to maximize your total after-tax return.

**IMPORTANT NOTE:** Tax-free municipal securities, as well as annuities, don't provide any additional tax advantage within an IRA.

**SUGGESTION:** You often have a choice to either pay the annual maintenance fee separately from the annual IRA contribution or to have the fee deducted from your IRA account value. The annual fee can be deducted on your income tax return (subject to the 2% miscellaneous itemized deduction rule). So, if your miscellaneous itemized deductions will exceed 2% of your AGI, it is wise to pay the IRA fee separately to get the tax deduction. Get an itemized statement from your IRA administrator or broker so you can easily identify account management fees.

**IMPORTANT NOTE:** Investment fees incurred in connection with a tax-exempt or tax-free investment (Roth IRA) are not deductible.

## When Is the Best Time to Contribute?

You can contribute to your IRA account anytime during the current year and as late as the due date of your individual income tax return, not including extensions. You can make the contribution all at once or dollar-cost-average your contributions, i.e., systematically invest a fixed dollar amount regularly.

**SUGGESTION:** If possible, make your IRA contribution as early as you can in the year. Missing out on 15½ months' earnings compounded over the next 20 or 30 years can make a big difference. If you can't make the full contribution on January 1, consider dollar-cost averaging.

## Spousal IRAs

If your spouse is not working, you can establish a spousal IRA. You and your spouse can make IRA contributions of up to \$5,500 and \$6,500 if age 50 by December 31, 2016 each in 2016, providing your tax filing status is married/filing jointly and your combined earnings are at least equal to the contributed amount.

As a result, a couple can contribute a total of \$12,000 in 2016, (same in 2015) if at least one of you is age 50 by December 31, 2016, and \$13,000 if both of you are eligible for the catch-up provision.

## Advantages and Disadvantages of IRA Accounts

Let's quickly review why an IRA makes sense, even though you may think it has some disadvantages:

- An IRA is a tax-advantaged savings vehicle for retirement.
- You have control over how your savings are invested. You can choose from individual stocks and bonds, mutual funds, or certificates of deposit—just to name a few choices.
- Your IRA funds are transferable. If you don't like where your IRA is invested, you can easily transfer the funds (see below).
- IRAs are easy to set up and maintain.
- You don't need permission to use your money.
- If you withdraw the money before age 59½, it is subject to ordinary income taxes plus a 10% tax penalty. Exemptions from penalties include death, disability, and taking substantially equal installments over your lifetime. Individuals may also make penalty-free withdrawals from IRAs for medical expenses in excess of 10% (7.5% for age 65 or older) of adjusted gross income.

**SUGGESTION:** Penalty-free (and tax-free from Roth IRAs) withdrawals are allowed from IRAs for qualified first-time homebuyers up to a \$10,000 lifetime limit. In addition, penalty-free withdrawals are allowed for qualified education expenses.

**SUGGESTION:** Under the rollover rules, you may withdraw money from an IRA temporarily and redeposit the full amount within 60 days in the same or a different IRA, qualified employer plan, 403(b) plan, or 457 plan without tax consequences. This provision can be an alternative if you need a short-term loan. But use this strategy with extreme caution. Generally, if you don't repay the loan within 60 days, you'll pay income tax and a 10% penalty on the amount borrowed, and you can't put the amount back into the IRA. Also, such rollovers may not be made more than once per year from each IRA (but an individual is not limited to the number of IRAs he or she may have). If you just want to transfer your IRA, and do not need to take possession of the funds, use a direct trustee-to-trustee transfer, which is easier and not subject to any frequency or time limitations. Your new trustee will handle the details and paperwork for you.

**IMPORTANT NOTE:** You cannot borrow against your IRA account as you can with a 401(k) plan. You also cannot use the account to secure a loan.

**IMPORTANT NOTE:** Unlike qualified retirement plans, the money you have in an IRA may not necessarily be protected from your creditors. Depending on state law, some courts have ruled that an IRA can be reached by creditors.

## Rollovers

### Rollovers to Your IRA

If you leave a company and you are vested in a qualified employer retirement plan, such as a 401(k) plan, you generally have several distribution options on how to take this money. Before you take a distribution, look at all your options and make an informed decision. You may have the following options available:

- Leave the money in the former employer's qualified plan.

- Directly roll over your qualified plan money into a new employer's qualified plan, assuming the new plan will allow you to do so right away.
- Directly roll over your distribution into a conduit IRA until a new employer's plan will accept the money (necessary for certain plan participants to preserve capital gain and averaging treatment).
- Directly roll over your distribution into a traditional IRA.

**SUGGESTION:** If you take your retirement money from your former employer's plan, and you do not have access to a qualified plan in your new job, it is a good idea to roll over your plan funds into a traditional IRA. This way you retain the deferral of taxes.

**IMPORTANT NOTE:** One disadvantage of rolling over qualified plan funds to a traditional IRA is that you lose the benefit of a special tax provision called "forward averaging." However, by rolling over the distribution to a conduit IRA in which qualified plan assets have been segregated, and then back into another qualified plan, you can preserve forward-averaging treatment. This special tax treatment is available to plan participants born before 1936.

## Converting a Traditional IRA to a Roth IRA

When a traditional IRA is converted to a Roth IRA the taxpayer has to pay tax on the deductible contributions and any earnings in the account at the time of the conversion. The 10% early distribution penalty does not apply on the conversion. Here are some key assumptions you will need to formulate when determining if you should convert an existing IRA to a Roth IRA:

- The amount of time until you will begin taking withdrawals from the IRA
- The number of years you plan to take withdrawals from the IRA
- The rate of return you expect to earn before retirement
- The rate of return you expect to earn during retirement
- Your current income tax bracket
- Your income tax bracket in retirement
- The amount of tax you will be required to pay if you make the conversion

The longer the period until withdrawal, and the higher your expected rate of return, the more advantageous it may be to convert. The greater the amount of earnings in the account, the greater the tax-free advantage upon distribution. If you are close to retirement, it may not be as beneficial to convert. Keep in mind that the larger the IRA account balance you have to convert, the more tax you will have to pay.

**SUGGESTION:** If you are eligible to set up a Roth IRA and you have money sitting in a previous employer's plan, you can roll that money into a traditional IRA and then convert it to a Roth IRA. (This can be done as a one-step process.) You would be required to pay tax on the contributions and earnings in the account, but qualified distributions in retirement would be tax-free.

**SUGGESTION:** Roth IRAs may make contributions to some employer retirement plans less attractive since amounts contributed to those plans are tax-deferred, while amounts earned in a Roth IRA are tax free and qualified distributions are also tax-free.

## Roth IRA and 401(k)

Before the introduction of the Roth IRA, it was a fairly easy and straightforward decision-making process when deciding where to save money for retirement. If you had access to a 401(k) plan, it was always most beneficial to save the maximum pre-tax amount. After-tax contributions to a 401(k) plan were recommended if you had more money to save and did not qualify to make a deductible IRA contribution. These strategies were suggested regardless of whether you received a company matching contribution.

Now, with the Roth IRA and the current IRA deductibility rules, the decision is not so cut-and-dry. As you read through, it is more important than ever before for you to evaluate the other options available to you in saving for retirement and compare them to saving in your company's 401(k) plan.

## Choosing between the Roth IRA and Other Vehicles

Assuming you meet the qualifications to set up a Roth IRA, how do you decide where to put your retirement savings each year?

A Roth IRA will generally be more beneficial for individuals who are far away from retirement and whose projected tax rate in retirement will be higher than it is now. It will also likely be better for people who plan to continue working past age 70. It can be used as a supplemental way to save once the maximum annual pre-tax 401(k) contribution has been made to a plan with a company match.

**IMPORTANT NOTE:** The maximum annual contribution to a Roth IRA is only \$5,500 in 2016 (same in 2015) plus catch-up contributions if you are at least age 50. The current maximum annual contribution to a 401(k) plan for non-highly compensated employees set by the IRS is considerably higher.

By comparison, retirement plan accumulations in a 401(k) plan that you contribute to and that has an employer match, should exceed retirement accumulations that can be attained within a Roth IRA. However, a Roth IRA contribution is almost always better than an unmatched after-tax 401(k) contribution.

Both contributions are nondeductible, but tax-free distributions may be made from a Roth IRA if held for at least 5 years and if made on or after you reach age 59½, or because of death or disability. Also with regard to Roth IRAs, tax-free, penalty-free

distributions, subject to a \$10,000 lifetime limit, are allowed for first-time homebuyers.

If the 401(k) contribution is unmatched but pre-tax, then the answer depends on how your tax rate is expected to fluctuate upon retirement. If your tax rate will increase in retirement, the Roth IRA is usually more favorable. If your tax rate will decrease in retirement, the 401(k) may be more beneficial. Also consider the choice of investment channels made available by the employer in a 401(k) plan and the ability to take a loan against your account balance. In a Roth IRA, you can invest in a wider range of assets, but loans are not permitted.

If you are not eligible to establish a Roth IRA, contribute the maximum pre-tax contribution to your company retirement plan first. If you have additional money to save, and you are eligible to make a tax-deductible contribution to a traditional IRA, do that next. ♦

---

**DISCLAIMER:** For a comprehensive review of your personal situation, consult your tax Advisor.

---