Hands on Banking®
Money skills you need for life

About Individual Retirement Accounts (IRA)

A retirement plan is a way to set aside money for the future and avoid spending it now. Contributing to a retirement plan can help you save more, save more often, and start saving now. That gives your money more time to grow. Consult with your employer and a retirement planning expert to discuss what retirement plan options are available to you.

One common type of retirement plan is the Individual Retirement Account (IRA). An IRA is an account that holds investments you've made (for example, CDs, mutual funds, or stocks) to help pay for your retirement. An IRA is a good investment for money you don't need right away and can afford to invest for a period of time.

There are two types of IRAs, the Traditional IRA and the Roth IRA. This chart compares the two. To learn more about the differences and to set up an IRA, it's important to work with a banker, a financial advisor, or a retirement specialist.

	Traditional IRA	**Roth IRA**
Account description	Your earnings grow tax-deferred and, if eligible, your contributions may be tax-deductible as well. You can also roll over your 401(k)s, IRAs, or employer-sponsored qualified retirement plan to consolidate your retirement assets without having to pay taxes currently.	You make after-tax contributions but the money you withdraw after retirement may be free from federal taxes.
Eligibility to contribute	You can contribute up to the year you turn 70½ as long as you have earned income.	You can contribute at any age as long as you have earned income and meet the income limitations.
Maximum annual contribution	$5,000 ($6,000 age 50 and older) for the 2012 tax year	$5,000 ($6,000 age 50 and older) for the 2012 tax year
Tax-deductible contributions	You can deduct your contributions if you meet the eligibility requirements.	Contributions are made in after-tax dollars if you meet the eligibility requirements.
Taxation of earnings and withdrawals	Tax-deductible contributions and earnings are taxed as ordinary income when withdrawn. After-tax contributions are withdrawn tax-free.	Contributions (all are made after tax) and earnings are income tax-free if the account is held for 5 years and are withdrawn for a qualified reason. Withdrawal of earnings for non-qualified reasons may be taxed as ordinary income.

About individual retirement accounts (continued)

	Traditional IRA (continued)	Roth IRA (continued)
Taxation of earnings and withdrawals	Tax-deductible contributions and earnings are taxed as ordinary income when withdrawn. After-tax contributions are withdrawn tax-free.	Contributions (all are made after tax) and earnings are income tax-free if the account is held for 5 years and are withdrawn for a qualified reason. Withdrawal of earnings for non-qualified reasons may be taxed as ordinary income.
Withdrawal Penalties	10% IRS early withdrawal penalty if withdrawn before age 59½ unless exception applies.	No penalties for withdrawals of contributions. 10% IRS early withdrawal penalty if earnings withdrawn before age 59½ unless exception applies.
Required withdrawals	Must begin at age 70½.	Upon death of owner.

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