

# Traditional IRA (Individual Retirement Account or Annuity)

## CONCEPT APPLIED:

A traditional IRA lets eligible workers accumulate retirement savings and defer all taxes until the money is withdrawn. Workers whose adjusted gross income falls below a specified amount (and sometimes their non-working spouse) can contribute to traditional IRAs.

## HOW IT WORKS:

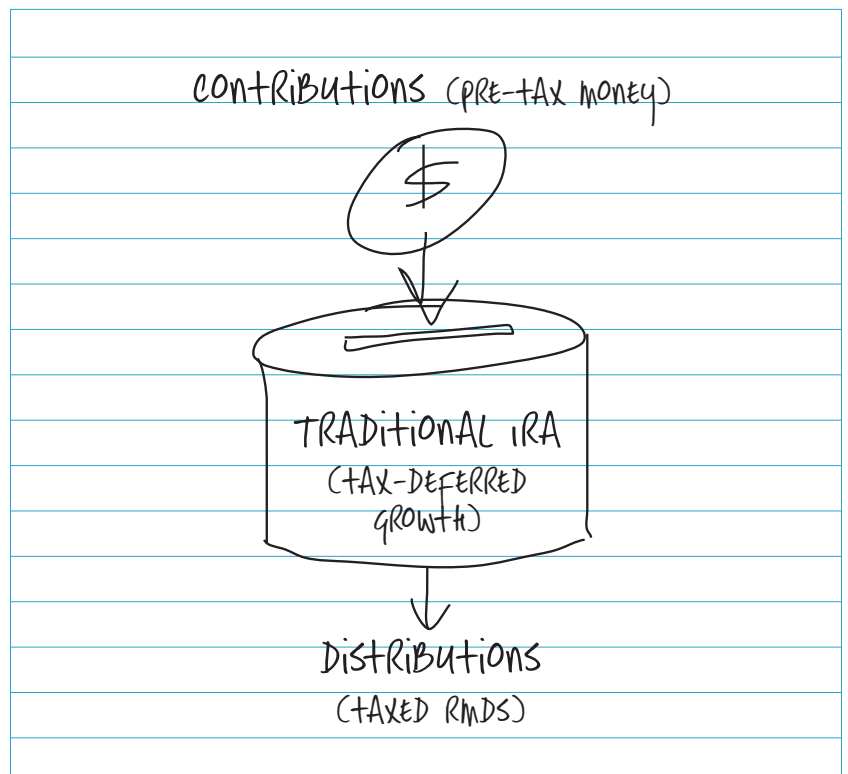
An individual establishes an IRA and makes annual contributions up to \$7,000 in 2025 (\$8,000 if over age 50). Contributions that meet all income/contribution limits are tax deductible. IRA deposits and any earnings are tax deferred, and distributions are generally taxed as ordinary income. IRA owners must begin taking annual required minimum distributions (RMDs) in the year they turn 73. Penalties apply to early distributions (before age 59½) and distributions that are less than the required minimum amount.

## WHY IS IT USEFUL?

IRAs provide retirement benefits to those not covered by other retirement plans and may be used to supplement employer-sponsored plans. IRAs offer opportunities for greater savings through pre-tax contributions while providing increased earnings through tax-deferred growth potential.

## 50 WORDS OR LESS

Anyone earning taxable compensation during the year can contribute to an IRA. Workers covered by an employer retirement plan may not be able to deduct all of their contributions. Deductions are phased out as income rises, until they are eliminated entirely above a certain income level.



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