IRA and Education Savings Accounts

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Traditional IRA

What Is It?

A **Traditional IRA** is a type of retirement account that allows you to make annual contributions, all of which may be tax deductible. Yes, most Traditional IRA contributions are fully deductible. Additionally, every penny of the earnings in your Traditional IRA is 100% free from federal income tax until you withdraw it from your account. Tax-deferral makes your money grow far more quickly than it would in a taxable investment with the same yield.

Who Can Contribute and How Much?

You and your spouse can each contribute:

- If you have earned income from employment
- Up to the maximum annual contribution limit

If you have little or no earned income, are married and file jointly, you may contribute using the spousal rules, unless your combined income is too high.

The amount you may contribute each year to both a Traditional and a Roth IRA increases over time. Individuals age 50 and older benefit from higher contribution limits, allowing those closest to retirement to save even more.

The maximum annual contribution is $6,500 (for year 2023) or $7,000 (for year 2024), or 100% of your earned income, whichever is less. A married couple filing a joint tax return may contribute up to $13,000 (for 2023) or $14,000 (for 2024) each year. Individuals reaching age 50 or older in the current year may contribute an extra $1,000, called a “catch up” contribution. There are no minimum contributions.

When Can I Withdraw Money?

Access to your IRA funds is guaranteed — a benefit that may not be easily available with other retirement plans. Distributions may begin at age 59 ½ with no tax penalty. However, you are not required to begin distributions until age 73 (age 72 prior to 2023 and increases to 75 in 2033) if you were born on or after July 1, 1949. If you were born before this date, the required age to begin receiving required minimum distributions is 70 ½.

Withdrawals made prior to reaching age 59 ½ will be subject to a 10% IRS tax penalty. The following are specific situations in which the 10% penalty may be waived:

- Eligible post-secondary education expenses
- IRS Levy
- First-time home purchase (up to $10,000)
- Qualifying medical expenses exceeding 10% of adjusted gross income
- Disability
- Death

Roth IRA

What Is It?

The **Roth IRA** allows you to invest your after-tax dollars today, let the investment grow tax-deferred, and withdraw your principal and earnings tax-free (provided certain requirements are met).

Who Can Contribute and How Much?

You and your spouse can each contribute:

- If you have earned income from employment
- Up to the maximum annual contribution limit

If you have little or no earned income, are married and file jointly, you may contribute using the spousal rules, unless your combined income is too high.

Can I Contribute After Age 73?

Yes. After 2020, there is no age limit on making regular contributions to Traditional or Roth IRAs. You or your spouse simply need to have earned income equal to the amount you contribute up to the maximum allowed. (There are income thresholds which may reduce the amount you can contribute).

Can I Contribute to Both a Traditional and Roth IRA?

Yes. However, contributions to a Roth IRA must be aggregated with Traditional IRA contributions for the purpose of the annual contribution limit.

When Can I Withdraw Money?

Earnings may be withdrawn tax-free and penalty-free if they are taken as a "qualified distribution." A distribution is qualified if it is paid after you have had a Roth IRA for five years and you are:

- Over age 59½,
- Disabled,
- A qualified first-time home buyer, or
- Deceased and funds are paid to your beneficiary

Otherwise, unless an exception applies, the earnings are taxable and may be subject to the IRS 10% early distribution penalty.

How Much Will I Be Allowed to Contribute?

Contributions to a Roth IRA are based on your tax filing status and modified adjusted gross income (MAGI). Consult your tax advisor for additional information.

Am I Ever Required to Take Funds from My Roth IRA?

No. Unlike the Traditional IRA, you are not required to take minimum distributions at a certain age. This means that your earnings can continue to grow until you need them. However, upon your death, specific death distribution rules may apply.

Can I Convert My Traditional IRA to a Roth IRA?

Yes. However, there are specific rules that govern the process of converting funds from a Traditional to a Roth IRA. Consult your tax advisor.

Coverdell Education Savings Account

What Is It?

It is an ideal way to save for a child's future education expenses. Earnings are tax-free if used for qualified elementary, secondary, or post-secondary education expenses.

How Much Can I Contribute?

Almost anyone can contribute to a Coverdell Education Savings Account. Each child can receive a total of $2,000 per year in contributions from all sources. Contributions may be made until the year the child reaches 18, with the exception of special-needs children.

You may be limited by your annual income to the amount you can contribute annually. Most individuals are eligible to make a $2,000 after-tax annual contribution to a Coverdell Education Savings Account for each child. However, individuals whose modified adjusted gross income (MAGI) exceeds certain levels will not be allowed to contribute as much per child. Consult your tax advisor.

What Is a Qualified Education Expense?

These are expenses of a designated beneficiary who is enrolled in an eligible education institution on a part-time or full-time basis. Such expenses include:

- Kindergarten through post-secondary tuition
- Fees
- Books
- Supplies
- Equipment

Room and board may also be considered a qualified expense if the beneficiary is enrolled at an eligible education institution on at least a half-time basis.

Will the Distributions from the Coverdell Education Savings Account be Taxed?

No. As long as the distribution does not exceed the amount of the education expense it will be tax-free. If it does, then all or a portion of the earnings will be taxable to the designated beneficiary. Consult your tax advisor regarding any distribution penalties.

Can I Change the Beneficiary Designation?

Yes, if you choose this optional provision during account opening. The beneficiary must be a member of the same family as the current designated beneficiary. Such rollovers are only allowed once per year. In such cases, the funds may be used for education expenses of the new designated beneficiary.

This brochure is for educational and informational purposes only. EECU does not guarantee the accuracy or completeness of the information and is not providing tax or legal advice. Tax laws are complex and you should consult your tax advisor to find out about your personal IRA contribution limits and deductibility.

IRA & Education Savings Accounts

Individual Retirement Accounts

Educational Employees Credit Union offers two types of Individual Retirement Accounts: Traditional and Roth. We also offer the Coverdell Education Savings Account (formerly the Education IRA). All are available as IRA Share Savings or IRA Share Certificates.

Educational Employees Credit Union is a not-for-profit financial cooperative. We are member-owned and member-driven. What does that mean for you?

It means we're not like other financial institutions—and neither are our products. We know that sometimes you need more than a basic savings account to get where you want to go. Our IRA and Education Savings Accounts give you the options you need to make that happen. Our low balance requirements and various term choices will fit virtually any retirement or college education savings plan. From those just starting out to those well on their way, we can help you choose a Traditional or Roth IRA or Coverdell Education Savings Account that is right for you.

Not only did we make our products different, but we'll treat you differently, too. You matter here—whether you have small balances and are just starting out or have large balances from a lifetime of work and saving. Why? Because it's all about you—not your money. It's about helping you save money. It's about helping you make your money work harder. And, it's about helping you succeed with your financial plan.

That's smarter banking.

Member Service Center

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