WELLS FARGO Advisors

Traditional and Roth IRA overview

Individual retirement accounts (IRAs) allow you to save for retirement and take advantage of tax benefits. Even if you already participate in a workplace retirement plan (WRP) such as a 401(k), 403(b), SEP, and SIMPLE IRA, consider investing in an IRA to help supplement these savings and gain access to a potentially broader array of investments.

There are two main types of IRAs—Traditional and Roth—each with distinct features. When analyzing whether a Traditional or Roth IRA is right for you, one of the key decision points is when you want to pay income taxes on your savings.

Traditional IRA—offers *tax-deferred* growth potential. You pay no taxes on any investment earnings until you withdraw or "distribute" the money from your account, presumably in retirement. Additionally, depending on your income, your contribution may be tax deductible. Deferring taxes allows for a potentially greater accumulation of wealth.

Traditional: *Pay taxes later*

With a Traditional IRA your contributions may be tax-deductible and income tax will apply to distributions you have to include in gross income in retirement.

Roth IRA—offers *tax-free* growth potential. Investment earnings are distributed tax-free in retirement, if a five-year waiting period has been met **and** you are at least age 59½, or as a result of your disability, or using the first time homebuyer exception, or taken by your beneficiaries due to your death. Since contributions to a Roth IRA are made with after-tax dollars, there is no tax deduction regardless of income.

Roth: *Pay taxes now*

With a Roth IRA you make after-tax contributions, so any earnings as part of a qualified distribution can be taken tax-free in retirement.

Investment options

Wells Fargo Advisors offers you flexibility when saving for retirement because you can hold a wide variety of investments such as stocks, bonds, mutual funds, annuities, etc. and access investment guidance through a professional financial advisor. This allows you to diversify your assets and invest based on your risk tolerance, time frame, and personal situation.

Choosing the right IRA

To make the best decision, you must consider such factors as your current and future tax rates, when you will need these funds and for what purpose, estimated account growth, and your access to any other retirement savings vehicles.

2019 and 2020 Traditional and Roth IRA contributions

Maximum contribution (per individual)	Catch up contribution (if age 50 or older within a particular tax year)
$6,000 for 2019 & 2020	$1,000 for 2019 & 2020

- You or your spouse, if filing jointly, must have earned income to make an IRA contribution.
- The total contribution to all of your Traditional and Roth IRAs cannot be more than the annual maximum for your age.
- Contributions must be made in cash, check, or money order. Contributions cannot be made in-kind (i.e., securities, property).
- Traditional and Roth IRA contributions can be made at any age if eligibility requirements are met.

Traditional IRA deductibility limits

- Full deduction if you and your spouse, are not covered[1] by a WRP regardless of income.
- If you and/or your spouse are covered by a WRP[1], the MAGI phase-out range for deductibility is as follows:

Single/head of household		
2019	**2020**	**Deductibility**
Up to $64,000	Up to $65,000	Full deduction
$64,000 up to $74,000	$65,000 up to $75,000	Partial deduction
More than $74,000	More than $75,000	No deduction
Married filing jointly		
2019	**2020**	**Deductibility**
Up to $103,000	Up to $104,000	Full deduction
$103,000 up to $123,000	$104,000 up to $124,000	Partial deduction
More than $123,000	More than $124,000	No deduction
Married filing separately[2]		
2019	**2020**	**Deductibility**
Up to $10,000	Up to $10,000	Partial deduction
More than $10,000	More than $10,000	No deduction

- If you are not covered[1] by a WRP but your spouse is covered, the MAGI phase-out range for deductibility for you is as follows:

Married filing jointly		
2019	**2020**	**Deductibility**
Up to $193,000	Up to $196,000	Full deduction
$193,000 up to $203,000	$196,000 up to $206,000	Partial deduction
More than $203,000	More than $206,000	No deduction

Did you know…

…you can make a non-deductible contribution to a Traditional IRA even if your income exceeds deductibility limits?

Traditional IRA distributions

- Income tax will apply to distributions that you have to include in gross income.
- You may owe a 10% additional tax on early or pre-59½ taxable distributions (10% additional tax).
  - The exceptions to the 10% additional tax are for distributions after reaching age 59½, death, disability, eligible medical expenses, certain unemployed individuals' health insurance premiums, qualified first-time homebuyer ($10,000 lifetime maximum), qualified higher education expenses, Substantially Equal Periodic Payments (SEPP), Roth conversion, qualified reservist distribution, birth or adoption expenses (up to $5,000), or IRS levy.

Required Minimum Distributions (RMDs) for Traditional, SEP, and SIMPLE IRAs begin by your Required Beginning Date (RBD), which is generally April 1 following the year you turn age 72. Please note that this does not affect individuals who turned age 70½ on or before Dec. 31, 2019. After the first year, RMDs must be taken by December 31 of each year.

Roth IRA contribution phase-out limits

- Contributions are subject to the following MAGI limits:

Single/head of household		
2019	**2020**	**Contribution**
Up to $122,000	Up to $124,000	Full contribution
$122,000 up to $137,000	$124,000 up to $139,000	Partial contribution
More than $137,000	More than $139,000	No contribution
Married filing jointly		
2019	**2020**	**Contribution**
Up to $193,000	Up to $196,000	Full contribution
$193,000 up to $203,000	$196,000 up to $206,000	Partial contribution
More than $203,000	More than $206,000	No contribution
Married filing separately[2]		
2019	**2020**	**Contribution**
Up to $10,000	Up to $10,000	Partial contribution
More than $10,000	More than $10,000	No contribution

Roth IRA distribution rules

Roth IRAs have two types of distributions, qualified and non-qualified distributions.

- *Qualified distributions*, which are tax-free and not included in gross income, are when your account has been open for more than five years **and** you are at least age 59½, or disabled, or using the first-time homebuyer exception, or taken by your beneficiaries due to your death.

Did you know…

Annual Roth contributions can be distributed at any time, tax-free?

- *Non-qualified distributions*, do not meet the above requirements. There are ordering rules when taking *non-qualified distributions*. All of your Roth IRAs are aggregated when applying the distribution ordering rules.
  - **Contributions come first**—The first amounts distributed from any of your Roth IRAs, if you have several accounts, are annual contributions. Because Roth contributions are not deductible, they are not included in gross income and can be taken at any time.
  - **Converted dollars are next**—After you have exhausted all of your contributions, the next amounts distributed are from any conversions you have completed. These conversion amounts are distributed tax-free on a first in, first out basis. Converted amounts taken before the five-year holding period, or you are age 59½ or older, whichever is first, may have a 10% additional tax, unless an exception applies. Each conversion is subject to a separate five-year holding period.
  - **Earnings are last**—The last amount is distributed from earnings. Earnings taken before the account has been open for more than five years **and** you are at least age 59½, or disabled, or using the first-time homebuyer exception, or taken by your beneficiaries due to your death, are subject to tax and the 10% additional tax, unless an exception applies.
- You do not have to take RMDs during your lifetime.

Roth IRA conversion

Converting to a Roth IRA may help you maximize your tax-free wealth-building opportunities. A conversion of after-tax amounts will not be subject to income tax. Any before-tax portion converted will be included in your gross income for the year.

- You can convert your existing Traditional, SEP, and (after two years) SIMPLE IRAs by paying the ordinary income tax, but no 10% additional tax.
- Eligible rollover distributions from your qualified employer sponsored retirement plan (QRP) such as a 401(k), 403(b), or governmental 457(b) can be converted to a Roth IRA. Roth conversions are not eligible for recharacterization.

The deadline to complete a Roth conversion is December 31.

Funding your IRA with your tax refund

Did you know that when you file your tax return you can have the IRS deposit your refund directly into your Wells Fargo Advisors IRA? You can accomplish this by using the IRS Tax Form 8888[3]. Form 8888 uses the direct deposit process to transfer your tax refund to any number of IRAs or other saving or checking accounts that you wish. Please note that if you want your refund deposited into only one account, you do not complete this form, but instead can request a direct deposit of your refund on the tax return you are filing.

Wells Fargo Advisors will assume the direct deposit received will be for the current calendar year unless your Financial Advisor is notified that you wish to have the deposit designated as a prior year IRA contribution.

Did you know…

…using your tax return to fund your IRA is an easy way to build your retirement savings?

Talk to Wells Fargo Advisors

At Wells Fargo Advisors, we strive to educate our clients on the many facets of investing for their retirement. Please speak with your Wells Fargo Advisors Financial Advisor for more information about IRAs and retirement planning.

With you every step of the way

Everyone has a different vision of retirement that requires a unique financial strategy. Wells Fargo Advisors can support you in your retirement planning process by providing the guidance needed to make informed choices. Working together, we'll design and implement an investment plan that can help you live out your unique vision of retirement.

Please Note: This material has been prepared for informational purposes only and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. The accuracy and completeness of this information is not guaranteed and is subject to change. It is based on current tax information and legislation as of July 2020. Since each investor's situation is unique, you need to review your specific investment objectives, risk tolerance, and liquidity needs with your financial professional(s) before an appropriate investment strategy can be selected. Also, since Wells Fargo Advisors does not provide tax or legal advice, investors need to consult with their own tax and legal advisors before taking any action that may have tax or legal consequences.

1. The "Retirement Plan" box in Box 13 of your W-2 tax form should be checked if you were covered by a workplace retirement plan.
2. Your filing status is considered single for IRA contribution purposes if you did not live with your spouse during the tax year. See IRS Pub 501 for more information.
3. IRS Forms 8888, irs.gov.