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NEED-TO-KNOW TOOLKIT #4

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TRADITIONAL IRA AND 401(K) RULES YOU NEED TO KNOW

(This article applies largely also to the other qualified plans, including 401(k), 403(b), SEP, SIMPLE and those related. This article does not apply to Roth IRAs.)
When you invest with a traditional IRA, you are entering into a contract with the IRS that stipulates the treatment of your qualified retirement allocation during the lifetime of the contract. The largest benefit to you: deferred tax dollars. The cost to you: read below.

GOVERNMENT CONDITIONS, REQUIREMENTS AND REGULATIONS FOR TRADITIONAL IRA HOLDERS:

1 - **The restricted holding period for your IRA:** age 59 1/2.
2 – **Penalties for withdrawing before age 59 ½:** 10% federal, 2.5% state on the amount withdrawn, besides tax.
3 – **Withdrawals exempted from penalties** There are at least 12; the main ones: $10,000 for first-home buyer; total/permanent disability; certain higher education purposes; IRS levy; unreimbursed medical expenses.
4 – **Ever-changing tax rate:** All deferred IRA contributions/income is taxed at the tax rate when you later take the distribution. Since future taxes are likely to increase, this requirement is adverse for most IRA holders.
5 - **Required Minimum Distributions (RMDs):** Generally age 70 ½, post-COVID.
6 - **Failure to take RMDs:** 50% penalty on what you should have withdrawn.
7 – **Source of IRA contributions:** All contributions come from you; none of the government's money is invested. (Therefore, all of these restrictions and conditions are imposed on your retirement funds, which are contributed by you, without the government contributing anything to your IRA.)
8 – **How IRA distributions are taxed:** At ordinary income rate when making the withdrawal. (This is the common income-tax-bracket rate, the worst of the three tax rates (the other two being capital gain tax and zero tax)).
9 – **Pass-through taxation:** Non-spouse beneficiaries are taxed, also at the ordinary income rate, and are required to liquidate the entire IRA amount within 10 years after the death of the IRA benefactor. The SECURE Act, in force on January 1, 2020, severely curtailed non-spouse beneficiary options.
10 – **IRA account value is not all account holder's money:** Your money is tied up, and considerably tied up with the growth of your IRA. Someone liquidating a $1,000,000 IRA can pay in excess of 50 pct in taxes and penalties.
11 – **Guarantees and protections:** None if invested in the stock market. The vast majority of IRA accounts are thus invested, and this is the most common situation of risk occurring and of huge market losses being realized. The only protection: Those who incur market losses must liquidate all of their like-kind IRAs before they can deduct an annual $3,000 loss for tax purposes.
12 – **Additional tax on IRA retirement income:** IRA RMD income is included (as is all ordinary income) to calculate a provisional tax on up to 85% of your social security income.
13 – **IRC and USC rules for IRAs:** IRA rules can be changed by the U.S. at any time. (SECURE Act most recent.)

ACT ACCORDINGLY

Traditional IRAs and other qualified plans essentially consign our retirement plan income to non-guaranteed, at-risk investments and under a set of rules that constricts its use for the sole "benefit" of deferred taxes. These taxes will very likely be higher at the time of our retirement than they are now. There are other financial life strategies to create non-taxable retirement income. Key question: Can an IRA, 401(k) et.al. be revised to reduce penalties and regulations? Explore with alliance to reduce your future retirement tax situation.