

# Traditional IRA



Wealth  
Management

A traditional IRA is a tax-advantaged retirement vehicle for individual investors. It's attractive to many investors because contributions grow tax-deferred. In addition, some investors, depending on their income and their ability to participate in an employer sponsored retirement plan, are also able to make tax-deductible contributions to the account.

## Tax-deferred advantages

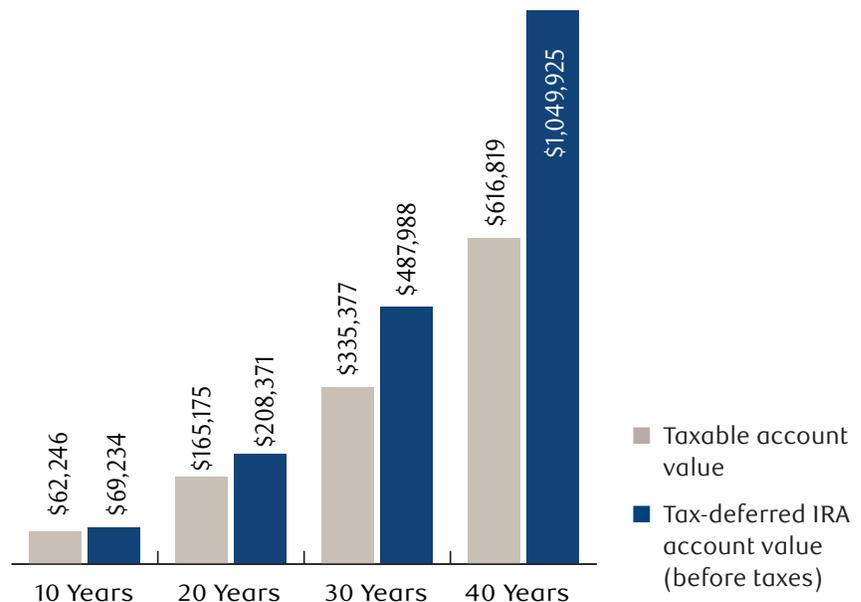
When saving for retirement, you want every investment advantage you can get—and one of the biggest is tax deferral.

Earnings on your IRA investments are tax-deferred, and will accumulate faster than if they were held outside an IRA.

The hypothetical illustration shows you how you might accumulate more in an IRA compared to a taxable account.

### Assumptions:

- \$6,000 contribution per year to an IRA vs. a \$6,000 contribution to a taxable account
- 24% federal tax bracket, 8% annual average rate of return
- Taxes on investment earnings are paid annually in the taxable account, but deferred until withdrawn from the IRA



This chart is for illustrative purposes and not intended to be representative of any specific investment vehicle. Past performance is not indicative of future results.

When you do begin to take withdrawals—usually in retirement—you will have to pay taxes on the distributions. You may, however, be in a lower tax bracket. Therefore, your total tax obligation could be less than it would have been with the taxable investment.

## Contribution limits

Anyone who has earned income or is married to someone with earned income may contribute to an IRA. In 2021 the annual contribution limit for an individual is the lesser of 100% of compensation or \$6,000. In addition, individuals who are age 50 or older may contribute an additional \$1,000 to their IRA.

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

### Deductibility limits

If you are single and do not participate in an employer-sponsored retirement plan, you may deduct the full amount of your IRA contribution. If you are married and do not participate in an employer-sponsored plan, but your spouse does, you may deduct your full contribution amount if your joint modified adjusted gross income is \$198,000 (2021) or less. The full deduction is phased out for incomes between \$198,000 and \$208,000 (2021).

If you participate in an employer-sponsored retirement plan, you can now deduct your contributions to a Traditional IRA according to the schedule\* below.

#### Modified Adjusted Gross Income (MAGI)\* limits for deductible IRA contributions

Tax year	Married (joint filers)	Single filers
2021	\$105,000– \$125,000	\$66,000– \$76,000
2020	\$104,000– \$124,000	\$65,000– \$75,000

Source: Internal Revenue Code and Regulations §219(g)(3)(B).

### Penalty-free withdrawal options

Your IRA is a retirement savings vehicle—it wasn't designed to help you pay for short-term goals. You have to pay a 10% penalty—in addition to applicable taxes—on most withdrawals you make before age 59½.

However, if you qualify, you can take penalty-free withdrawals from your IRA for a number of reasons including:

- Qualifying first time home purchase (\$10,000 lifetime limit)
- Higher education expenses
- Substantially equal periodic payments
- Disability

Although you may be able to take these distributions without paying a penalty, you will still owe income taxes on your IRA's earnings and deductible contributions. Consult with your tax advisor before making any withdrawals.

### IRA fund vehicles

Assets in a Traditional IRA can be invested in virtually any type of investment, including mutual funds, common stocks, corporate and government bonds, annuities and more.

The investments you select will depend on your individual needs, your tolerance for risk and your time horizon—how long you have until retirement. We can help you determine how much you'll need to meet your retirement goals, and can assist you in selecting appropriate funding vehicles for your IRA.

### Call us today

At RBC Wealth Management, we can answer your retirement planning questions and can give you the information you need in order to help you effectively invest your assets.

\* You can deduct the full \$6,000 for 2021, if your MAGI doesn't exceed the lower figure in the ranges given; this deductibility "phases out" until it disappears at the higher figure.

RBC Wealth Management does not provide a tax or legal advice. All decisions regarding the tax or legal implications of your investments should be made in consultation with your independent tax or legal advisor.