MML Investors Services
FORTUNA

Retirement Planning:

Invest in an IRA before Tax Day

IRA BASICS

An individual retirement account (IRA) is a type of savings vehicle that offers tax breaks for investing money for retirement. It remains one of the most effective ways to save for the future.

The IRA itself is not an investment, it's just the tax-advantaged home in which your funds and annual contributions reside. Once you've opened your IRA, you can use the money you contribute to purchase stocks, mutual funds, bonds, etc. just like you would with any other investment account.

The main advantage of an IRA over other investment accounts is that your earnings can grow tax-deferred as long as they're in the account.

The specific tax incentives depend on which type of IRA you choose.

TYPES OF IRAs

There are two main types of IRAs:

- Traditional IRA
- Roth IRA

Both offer tax-advantaged growth of your money while invested, but the main difference between the two is whether you reap the potential tax benefits upon contributing to or withdrawing the funds.

Traditional IRA earnings grow tax-deferred, while Roth IRA earnings grow tax-free.

There are some other important differences, such as withdrawal stipulations, as well as eligibility requirements concerning your adjusted gross income (AGI) and marital status. In fact, it's not uncommon for investors to have both traditional *and* Roth IRAs to increase the diversification of their tax benefits.

Let's look at each one in more detail to determine what makes the most sense for your retirement plan and investment strategy.

TRADITIONAL IRA

A traditional IRA allows you to contribute up to a specific amount each year. Often, you can deduct this annual contribution from your pre-tax income to potentially reduce your tax burden.

If you're under 50, the maximum yearly contribution is $6,000. If you're 50 or older, the maximum annual contribution is $7,000 per year. You'll only pay income taxes on the money in your account once you begin to make withdrawals.

If you decide to withdraw any funds from your IRA account before you reach age 59½, you'll need to pay a 10% penalty on the amount of the withdrawal, in addition to the income tax. Traditional IRAs also require you to start taking withdrawals called "required minimum distributions" once you turn 70½. The IRS calculates this amount based on your life expectancy and how much you have saved in your account.

Additionally, there could be some limits to your deduction based on your income:

Traditional IRA Contribution Limits for 2020

Filing Status	Full deduction if modified AGI is…	Partial deduction if modified AGI is…	No deduction if modified AGI is…
Married filing jointly And you're covered by retirement plan at work	$104,000 or less	More than $104,000 but less than $124,000	$124,000 or more
Married filing jointly And your spouse is covered by retirement plan at work	$196,000 or less	More than $196,000 but less than $206,000	$206,000 or more
Single or head of household	$65,000 or less	More than $65,000 but less than $75,000	$75,000 or more
Married filing separately and you or your spouse is covered by a retirement plan at work	Not available	Less than $10,000	More than $10,000

ROTH IRA

Roth IRAs are a bit different. Your contributions aren't tax deductible now, but you won't pay any taxes on your earnings when you withdraw the funds.

Once you reach age 59½, there is no withdrawal penalty, and the yearly contribution maximums are the same as a traditional IRA ($6000 if you're under 50, $7000 if you're 50 or older). But unlike a traditional IRA, there are no required minimum distributions to withdraw at age 70½ . You can leave the funds in your account to grow tax-free for as long as you like.

You're also able to convert a traditional IRA to a Roth IRA, but withdrawals will be subject to a penalty until five years after the conversion.

There might also be limits to your maximum contribution amounts or general eligibility based on your income:

Roth IRA Contribution Limits for 2020

Filing Status	Modified AGI	Maximum contribution
Married filing jointly or qualifying widow(er)	Less than $196,000	$6,000 ($7,000 if 50 or older)
	$196,000 to $205,999	Contribution is reduced
	$206,000 or more	Not eligible
Single, head of household or married filing separately (if you did not live with your spouse during year)	Less than $124,000	$6,000 ($7,000 if 50 or older)
	$124,000 to $138,999	Contribution is reduced
	$139,000 or more	Not eligible
Married filing separately (if you lived with spouse at any time during year)	Less than $10,000	Contribution is reduced
	$10,000 or more	Not eligible

EARLY WITHDRAWAL OF FUNDS

Both traditional and Roth IRAs require you to be age 59½ to avoid paying a 10% penalty when you withdraw funds from the account. However, there are some special circumstances that could allow you to withdraw money without necessarily paying the penalty, such as:

Making health insurance payments for you, your spouse, or your dependents after receiving unemployment compensation for 12 consecutive weeks.

Buying your first home. Withdraw up to $10,000 penalty-free ($20,000 for a couple) for the purchase, building, or rebuilding of your first home, or the first home of a child, parent, or grandparent.

Assisting with expenses if you become disabled such that you are unable to be gainfully employed due to a physical or mental condition.

Paying college expenses for you, your spouse, your children, or grandchildren (books, fees, tuition, housing, etc.).

SO, WHICH IRA IS RIGHT FOR ME?

If you expect lower taxes in retirement, a traditional IRA could be the way to go. If you expect higher taxes, a Roth might be best. That's because these accounts offer very different tax treatments.

When you retire and start drawing money from your investment accounts, do you anticipate that your tax rate will be higher than it is right now?

If you answered **"yes,"** consider choosing a Roth IRA. In the future you'll likely be moving to a higher rung of the income ladder, and since withdrawals from a Roth IRA are tax-free, you won't owe taxes when you reach retirement age and start drawing from your account.

If you answered **"no,"** a traditional IRA may be a better choice. High earners tend to migrate to lower tax brackets upon retirement, so it can make sense for them to take the up-front tax deduction these accounts offer during their working years — and absorb the income tax hit down the road in retirement when their tax rate is lower.

Unsure how your future tax rate will compare to your current one? Consider splitting the difference: You can contribute to both a traditional IRA and a Roth IRA in the same year, as long as the total amount you invest is within allowable limits.

	Roth IRA	Traditional IRA
Eligibility	**Age:** Any age, with taxable employment compensation **Income:** Income must be below a certain threshold to make contributions	**Age:** Under age 70.5, with taxable employment compensation **Income:** No income limits to make contributions
Contribution Limits	Age <50: $6,000 per year Age 50+: $7,000 per year	Same
Tax Benefits	Tax-free earnings growth Tax-free withdrawals	Tax-deferred earnings growth Typically tax-deductible contributions (up to a limit if total earnings are above a certain level)
Taxation at Withdrawal	Contributions are never taxed upon withdrawal Earnings are tax-free (at federal level) after 5 years and certain other conditions are met	Withdrawals of pre-tax earnings and any investment income are taxed upon distribution
Required Minimum Distributions (RMDs)	None	Beginning at age 70.5

Regardless of whether you choose a traditional or Roth IRA, an IRA can be a helpful element of a well-rounded retirement plan.

WHY OPEN AN IRA BEFORE TAX DAY?

When it comes to retirement investing, time is of the essence. Open or contribute to an IRA by Tax Day, April 15th, 2021*, to take full advantage of:

Investing toward your future	An IRA remains one of the most effective ways to save for retirement.
Tax Benefits	In both traditional and Roth IRAs the investments in your IRA grow tax-deferred, meaning you owe nothing on the gains so long as the money remains in the IRA.
Building beyond your 401(k)	IRAs allow individuals to contribute up to $5,500 per year; that's on top of what you can invest annually in your 401(k) or other employer-sponsored retirement plans.

*This deadline is applicable to all clients, including those who have a tax-filing extension. In order to make sure Fortuna can process applications and contributions in time, we need to receive all in good order submissions on or before April 1, 2021. ***Please Note****: Recurring deposits processed on or after January 1, 2021 will be coded as current year contributions*.

WHY FORTUNA?

With Fortuna, you work with your advisor, who understands your needs, and the potential of an advanced digital portfolio.

Sophisticated technology and personal guidance

Fortuna is a digital investment platform providing automated portfolio management, coupled with the guidance and long-term focus that comes with having a dedicated financial advisor who understands your individual goals.

A customized digital portfolio

Fortuna takes your unique financial situation into account to craft a customized digital portfolio, then uses sophisticated technology to auto rebalance your investments over time and keep you on track toward your goals.

Confident, connected investing

In addition to receiving a weekly email containing your portfolio status, you'll get updates telling you when trades are made, dividends are received, and when you've hit asset milestones. Plus, if you have questions at any time, you have access to your licensed advisor.

OPEN YOUR IRA TODAY

1

Beat the Tax Day Deadline

April 15th* is the deadline to make your 2020 IRA contribution.

2

Enroll in Fortuna to open your IRA

To enroll, visit your advisor's Fortuna webpage.

For personalized advice about your IRA options and step-by-step guidance, set up an appointment with your advisor.

3

View your Fortuna account

With 24/7 online access to your account, log in any time to check the status of your portfolio and track your progress toward your goals.

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