HILLS BANK

Understanding Traditional + Roth IRAs

An Individual Retirement Account (IRA) offers you a flexible way to invest for your future. An IRA may be funded with contributions each year or can receive rollover contributions from other retirement plans such as 401(k)s or 403(b)s. If you have multiple retirement and investment accounts, consolidating your assets with Hills Bank can make it easier for you to keep track of your money and manage your investments. There are two basic types of IRAs—Traditional and Roth. Contributions to a Traditional IRA may be tax deductible. Roth IRA contributions, also called after-tax contributions, are not tax deductible.

Traditional and Roth IRAs may be invested in cash/money market, CDs, stocks*, bonds*, and mutual funds*. IRAs may not be invested in life insurance, antiques, or collectibles (including coins). The IRS' rules for IRA real estate investments are complicated. Hills Bank cannot serve as the custodian or trustee for an IRA that holds real estate.

	Traditional IRA	Roth IRA
Eligibility	Anyone receiving eligible compensation for the year.	Anyone receiving eligible compensation for the year, provided their Adjusted Gross Income (AGI) falls below a specified income level.
Tax Deductible Contributions?	Yes, but phased out as income increases over a specified level. Contributions grow tax deferred until funds are withdrawn, then subject to ordinary income tax rates.	No. Contributions grow tax free as long as funds are not withdrawn before age 59.5 and the Roth IRA has been opened and funded for 5 years or more.

Withdrawals/Distributions	Withdrawals are subject to ordinary income tax rates.	Income tax free provided the 5 year requirement has been satisfied and withdrawals take place after age 59.5.Contributions to a Roth IRA are withdrawable at any time without penalty.
Required Minimum Distributions (RMDs)	RMDs pushed back to age 73, provided the IRA owner did not attain age 72 prior to Dec. 31, 2012. Required beginning date (RBD) for affected IRA owners will be April 1st of the year following the year in which the IRA owner attains age 73.	RMDs do not apply during your lifetime.
Early Distribution Penalty	10% if distribution is made before attaining age 59.5. (Some exceptions may apply.)	10% penalty on earnings only if distribution is made before attaining age 59.5. (Some exceptions may apply.)

Traditional IRA vs Roth IRA

Which is better for you?

While a Traditional IRA offers immediate tax savings, consideration should be given to balancing immediate tax savings with the potential income tax impact of later distributions. The earnings for a Traditional IRA grow tax deferred and a Roth IRA's earnings grow tax free. Distributions from a Traditional IRA are subject to income taxes at ordinary tax rates while distributions from a Roth IRA are potentially income tax free. This means the earnings are not subject to income tax.

Perhaps the real question should be, is it better to pay taxes now or pay taxes later?

You choose!

We have options based on your investment preferences – Certificates of Deposit in a variety of terms and investment portfolios in varying risk levels.

Convenient!

Have your retirement funds in the same place as the rest of your accounts.

Work with someone you know

Your Personal Banker or an expert from our **Wealth Management group**.

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