**2210.11: Individual Retirement Arrangements**

**Model Content Revised Date: 05/14/2024**

[[CUname]] (Credit Union) members will open Individual Retirement Arrangements (IRAs) subject to the following guidelines.

**Guidelines:**

1. **TRADITIONAL IRAs**  
   1. **Description.**  A traditional IRA is primarily an individual savings plan. Contributions are made up to a specified limit (listed below) and are tax deductible (depending on the filing status. The Credit Union will defer tax questions to the member’s tax advisor).  Money invested and earned in a traditional IRA is subject to income taxes at the time of withdrawal.
   2. **Opening traditional IRAs.**  A traditional IRA may be opened at any time during the year, but contributions for a tax year must be made before the member’s tax filing deadline.
   3. **Withdrawals.** Withdrawals can be made without penalty after the age of 59½. Minimum withdrawals must generally be made from the account at the age of 73.
   4. **Penalties.** Generally, withdrawals from traditional IRAs will be charged a 10% penalty, in addition to being taxed at ordinary rates if withdrawals are made prior to the age of 59½, or not enough money is withdrawn after age 73.  
      1. **Exceptions.**  The list below outlines the exceptions to the application of penalties.   
         1. Permanent disability of the IRA owner.
         2. Death of the IRA owner.
         3. Withdrawals used to pay non-reimbursed medical expenses, provided that the expenses are in excess of 7.5% of the owner’s adjusted gross income.
         4. Withdrawals used to help pay for the owner’s first-time home purchase ($10,000 withdrawal limit).
         5. Withdrawals used to pay higher education costs for the owner, the owner’s spouse, children or grandchildren (however, federal income taxes may still be owed).
         6. Withdrawals are used to pay back taxes to the Internal Revenue Service (IRS) after a levy has been placed against the IRA.
         7. Withdrawals are used to pay medical insurance premiums, so long as the owner has been unemployed for longer than 12 weeks.
   5. **Contribution Limits.**  
      1. The contribution limit is subject to change each calendar year.  For the current calendar year contribution limit, see IRS Form 590-A.
      2. Those over the age of 50 may be eligible to contribute an extra “catch-up” contribution.  The maximum allowable “catch-up” contribution for the current year can be found on IRS Form 590-A. In order to qualify, the owner must have reached the age of 50 in the year in which they make the “catch-up” contribution.
   6. **Multiple Accounts.**  Members with more than one traditional IRA will be treated as having a single account when calculating the tax consequences of distributions from any of them.
2. **ROTH IRAs**   
   1. **Description.**  A Roth IRA is primarily an individual savings plan. Contributions are made with after-tax dollars up to a specified limit (listed below), but are not tax deductible. There are no minimum distributions, and the withdrawals are not taxed. There are no age restrictions on contributions.
   2. **Qualification.** In order to open a Roth IRA, members must fall within specified income ranges:  
      1. Income ranges are based on tax filing statuses of Married Members Filing Jointly, Married Members Filing Separately, and Single Members Who File as Head of Household or Married Members Who Did **Not** Live With Their Respective Spouses During the Year.
      2. Members *between* a particular income threshold range (modified adjusted gross income (AGI)) may contribute a reduced amount.  The income threshold limit for each filing status can be found on IRS Form 590-A.
      3. Members *above* a particular income threshold (modified adjusted gross income (AGI)) cannot contribute to a ROTH IRA.  The income threshold limit for each filing status can be found on IRS Form 590-A.
      4. Members below a particular income threshold (modified adjusted gross income (AGI)) may contribute the maximum amount.  The income threshold limit for each filing status can be found on IRS Form 590-A
   3. **Contribution Limits.**  
      1. The contribution limit is subject to change each calendar year.  For the current calendar year contribution limit, see IRS Form 590-A.
      2. Those over the age of 50 may be eligible to contribute an extra “catch-up” contribution.  The maximum allowable “catch-up” contribution for the current year can be found on IRS Form 590-A.  In order to qualify, the owner must have reached the age of 50 in the year in which they make the “catch-up” contribution.
   4. **Multiple Accounts.**  Members with more than one Roth IRA will be treated as having a single account when calculating the tax consequences of distributions from any of them. To be tax-free, a distribution must meet both of the following requirements:  
      1. The distribution must be made after the 5-year (tax year) holding period; and
      2. The distribution must be made on or after the owner reaches age 59 ½, made to the owner’s beneficiary or estate, made to the owner who has become disabled, or made for a first-time home purchase.
3. **SPOUSAL IRAs** 
   1. **Description.**  A spousal IRA is a savings plan for working members who have a non-working spouse, or a spouse who has little or no income. The Credit Union will defer all questions regarding the deductibility of taxes to the member’s tax advisor.
   2. **Qualifications.** In order to open a spousal IRA, the member must be legally married at the end of the tax year and must file a joint income tax return. The member who opens the account must also be employed with an earned income of at least the amount contributed to the IRA.
   3. **Restrictions.** Members who open this type of account may be the beneficiary of the account. However, in order to do so, the account must be in the spouse’s name ONLY. Joint spousal IRA accounts are NOT allowed.
   4. **Contribution Limits.**  The contribution limit is subject to change each calendar year.  For the current calendar year contribution limit, see IRS Form 590-A. If the spouse is age 50 or older, the member may contribute an extra amount under the “catch-up” provision.
4. **SIMPLIFIED EMPLOYEE PENSION (SEP) IRA.**
   1. **Description.** The SEP IRA allows self-employed individuals to contribute to retirement plans for themselves or their employees without involvement in a complex qualified plan. The Credit Union will defer all questions regarding the deductibility of taxes to the member’s tax advisor.
   2. **Qualifications.**
      1. In order to open a SEP IRA, members must have reached the minimum age of 21, have worked for their employer in at least three of the last 5 years and received at least $750 in compensation for 2023 ($650 in compensation for 2021 and for 2022 from the meployer during the year and $600 for 2019 and 2020).
      2. An employee (including the business owner) who is eligible to participate in his or her employer's SEP plan must establish a Traditional IRA to which the employer will deposit SEP contributions
   3. **Restrictions**  
      1. Individual employees may not establish an SEP plan; instead, individual employees who are eligible to participate in the SEP plan must establish their individual Traditional IRAs to which the employer will deposit SEP contributions.
      2. Contributions made by employers cannot exceed the lesser of 25% of an employee's compensation, or a specific maximum. The contribution limit is subject to change each calendar year.  For the current calendar year contribution limit, see IRS Form 590-A.
   4. **Penalties.** See Section (1)(D). Because the funding vehicle for an SEP is a Traditional IRA, the distributions rules of a Traditional IRA also apply to SEP assets.
5. **COVERDELL EDUCATIONAL SAVINGS ACCOUNTS (CESAs)**  
   1. **Description.**  CESAs were created to help individuals save for a child’s higher education expenses. The money deposited into a CESA is taxed, but the earnings are not, so long as the student withdraws the money to pay for "qualified educational expenses". The Credit Union will defer all tax questions to the member’s tax advisor.  
      1. **Qualified Educational Expenses.** These include tuition, certain fees and supplies, books, and room and board (so long as the student is enrolled at least half-time).
      2. **Non-Qualified Distributions.**  A non-qualified distribution is any distribution other than a higher education expense distribution. When a nonqualified distribution is taken, a ratio of contributions and earnings is withdrawn. The earnings portion is then subject to taxes and a 10% penalty.
      3. **Exceptions.** Distributions made on account of death, disability, or scholarship are not subject to the 10% penalty. However, the earnings portion of such distributions is taxable.
   2. **Opening the Account.**  The student is designated as the beneficiary and may make withdrawals at any time.
   3. **Qualifications.**  
      1. In order to open a CESA, the child (defined as a person under the age of 18) for whom the member is contributing may not have had any contributions made on his/her behalf to a state prepaid tuition program in that year. Contributions on behalf of an individual who is 18 or older are not permitted.
      2. In order to make the maximum contribution, the member’s modified AGI may not exceed $110,000 if single or married filing separately, or $220,000 if married filing a joint tax return. Contributions phase out at a modified AGI of $220,000.
   4. **Restrictions.**  Members cannot move funds from a traditional or Roth IRA into a CESA. However, a member with one CESA may roll funds into an additional CESA for a new designated beneficiary who is a member of the same family.
   5. **Contribution Limits.**  Members may contribute up to $2,000 annually per child. Contributions for each year may be made until December 31 of that year.
   6. **Multiple Children.**  The law allows contributors to deposit their maximum allowable contribution into CESAs for as many children as desired. The contribution limit applies to all CESAs for the same child.
   7. **Time Limit.**  All funds must be completely distributed by age 30.
6. **SHARE INSURANCE**.     
   1. **Traditional, Roth and SEP IRAs.**Pursuant to NCUA Part 745.9, Traditional, Roth, and SEP IRAs are treated the same for share insurance coverage purposes. Traditional, Roth, and SEP IRAs will be considered together and insured up to $250,000 separately from other accounts of the member.
   2. **Coverdell ESAs.**Coverdell ESAs are treated as irrevocable trust accounts for share insurance purposes. The structure and exclusive purpose of ESAs, and the restrictions imposed on them by the IRS, demonstrate that these trusts are irrevocable in nature. ESAs and other irrevocable trust accounts will be considered together and insured up to $250,000 separately from other accounts of the beneficiary.
7. **RECORD RETENTION**. The Credit Union will retain all documents relating to a member’s IRA for 7 years after all funds from the account have been distributed and the account has been closed.  These documents will include the IRA agreement signed by the member upon opening the IRA, all disclosures given to the member, any amendments to those original disclosures, as well as any documents associated with distributions and closure of the IRA.