IRA

INDIVIDUAL RETIREMENT ACCOUNT

MERS
Municipal Employees' Retirement System

FLEXIBLE SAVING OPTIONS

FOR YOUR AND YOUR SPOUSE

Saving with a MERS IRA can help you reach a variety of financial goals:

- Benefit from tax-free growth or tax-deductible contributions
- Generate income in retirement
- Pay for your children's (or grandchildren's) college education
- Make a down payment on your first home
- Leave an inheritance for your loved ones
- Pay for the birth or adoption of a child

Opening a MERS IRA is a great way to build retirement security through tax-advantaged saving, with flexible withdrawals that can help you reach your other financial goals at the same time. It is also a smart choice for bringing diversity to your investment portfolio with MERS' professionally-managed, low-cost investment choices.

Visit mersofmich.com to open an account and start contributing to your IRA. Contributions can be made at any time by check, automatic payment, and/or rollover and can be set up as a one-time payment or recurring.

***Scan** or **click** for IRA details*

A Flexible Way to Save for Retirement

The MERS IRA is a tax-advantaged Individual Retirement Account for the exclusive benefit of current and former employees of Michigan municipalities and their spouses.

MERS offers two types of IRAs:

- A **Roth IRA** provides tax-free income in retirement
- A **Traditional IRA** allows tax-deductible contributions now

The total IRA **contribution limit is $7,000 per year**, with an additional $1,000 catch-up contribution allowed for those age 50 or older ($7,000 limit can be in one account or split between all IRAs you might have). Both types will also allow you to withdraw your money at any time without penalty for qualified expenses. These can include:

- Education expenses for you, your spouse, your child or grandchild
- Buying or building your first home (up to $10,000)
- Some medical expenses
- Birth or adoption of a child

However, there are some key differences between Roth and Traditional IRAs. Understanding those differences can help you determine which type is right for you.

Roth vs Traditional: Understanding the Differences

	Roth	Traditional
Tax Advantages	Contributions are made post-tax; qualified withdrawals provide tax-free income.	All or a portion of contributions may be tax-deductible; all withdrawals are subject to income tax (see pg 4).
Income Restrictions	You must be earning taxable income, however, income limits apply (see pg 4).	You must be earning taxable income. There is no income limit.
Early Withdrawal (Before Age 59½)	Before age 59½, you can withdraw your *contributions* at any time for any reason, without penalty or need to pay income tax. However, if you withdraw the *earnings* on your contributions, you will pay income tax on the amount and a 10% penalty may apply.	Before age 59½, you will pay income taxes on the amount you withdraw and a 10% penalty may apply.
Taxes on Withdrawals (After Age 59½)	After age 59½, withdrawals are tax-free, so long as your account has met the 5-year holding period requirement.	After age 59½, you will have to pay income taxes on any withdrawals.
Required Minimum Distributions	There are no required withdrawals.	Required minimum distributions must begin by April 1 following the year you reach age 73.

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CHOOSING BETWEEN ROTH AND TRADITIONAL IRA

Roth (After-tax) IRA

Roth – Roth contributions are made with after-tax dollars, meaning that you have already paid income tax on the money you put into your retirement account. That means you will not pay taxes on your withdrawals in retirement. Roth contributions do not lower your taxable income in the year you make them, but they may save you taxes in the long run if your tax rate is higher in retirement.

Tax-free earnings:

Contributions to a Roth IRA are made with after-tax dollars, and no income tax is owed when you take a qualified withdrawal from the account. This means your investment earnings can be tax-free income.

Emergency savings:

The ability to withdraw contributions at any time to cover unplanned expenses makes a Roth IRA appealing if you are trying to build your retirement account and your emergency savings at the same time. You can withdraw your contributions from a Roth IRA tax-free at any time, without paying a penalty. Only your investment earnings need to remain in the account until you are 59½ to avoid paying a 10% penalty and income tax.

Estate planning:

Traditional IRAs may require you to begin taking required minimum distributions (RMD) at a certain age. However, a Roth IRA has no RMD requirement during your lifetime. That means your money can continue to grow in a Roth IRA and be passed down to your heirs.

Traditional (Pre-tax) IRA

Traditional – Traditional contributions are made with pre-tax dollars, meaning that you do not pay income tax on the money you put into your retirement account. However, you will pay taxes on your withdrawals in retirement, based on your tax rate at that time. Traditional contributions could potentially lower your taxable income in the year you make them, which may reduce your tax bill as you contribute.

No income limit:

Anyone who is earning income can open a Traditional IRA. If you don't qualify to open a Roth IRA, a Traditional IRA is a smart choice to maximize your retirement savings with low-cost investment options.

Rollovers:

If you have changed jobs and are requesting a refund of contributions from a non-vested pension plan, rolling them into a Traditional IRA provides a smooth transfer of funds without any additional tax consequences. Consolidating outside retirement accounts makes it easy to manage your finances through your myMERS account.

Estate planning:

You may qualify to deduct all or a portion of your contributions from your income taxes, thus lowering your tax liability. If you are in your peak earning years, you may be in a higher tax bracket than during your retirement years, which can make the pre-tax contributions of a Traditional IRA appealing.

CAN YOU CHOOSE BOTH?

Yes. While you can fund both a Roth IRA and a Traditional IRA in the same tax year, your total contributions to all of your IRA accounts (including any non-MERS IRA accounts) cannot exceed the IRS annual contribution limit.

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