1 What an IRA is and why it exists

An Individual Retirement Account is a personal savings vehicle created by U.S. tax law to let individuals set aside money for retirement with either (a) an **up-front tax deduction** (Traditional IRA) or (b) **tax-free growth and withdrawals** (Roth IRA). Contributions grow tax-deferred, so earnings are not taxed each year; instead, tax is pushed to the withdrawal phase, or never owed at all in the Roth case. Congress first authorised IRAs in 1974 (ERISA) to supplement employer pensions and Social Security. (IRS)

2 The main IRA families

- **Traditional IRA** – pre-tax contributions if you (and, for married couples, your spouse) fall within income-based deduction limits; withdrawals are taxable, and required minimum distributions (RMDs) begin at age 73.

- **Roth IRA** – funded with after-tax dollars; qualified withdrawals are entirely tax-free after five years and age 59 ½; no lifetime RMDs for the original owner.

- **Rollover IRA** – preserves tax deferral when you leave an employer plan; unlimited rollover amount, but future annual add-ons must stay within the usual IRA limits.

- **SEP IRA** – employer-funded plan for self-employed owners and small businesses; contributions are employer only, up to 25 % of compensation (2025 limit ≈ $69,000). (IRS)

- **SIMPLE IRA** – salary-deferral plan for firms with ≤ 100 employees; 2025 elective-deferral limit $16,500 plus $3,500 catch-up at age 50 +. Employer must either match up to 3 % of pay or contribute 2 % for all.

- **Inherited / Beneficiary IRA** – holds assets passed on at death; post-2019 rules generally force the heir to drain the account within ten years unless they qualify as an "eligible designated beneficiary." (IRS)

3 Contribution limits and catch-ups

For 2025 the combined limit across all IRAs is **$7,000** (or **$8,000** for those age 50 +). A non-earning spouse may also contribute up to the same limit under the "Kay Bailey Hutchison spousal IRA." SEP and SIMPLE limits are higher because they are employer-sponsored. (IRS)

4 Income-phase-outs for deductibility and Roth access

- Traditional IRA deduction begins to phase out at **$79,000 modified AGI for single filers** and **$126,000 for married filing jointly** if the taxpayer is covered by a workplace plan; totally gone at $89k⁄$146k.

- Roth IRA contribution eligibility starts to phase out at **$150,000 AGI for singles** and **$236,000 for joint filers**; zero contribution allowed above $165k⁄$246k.
  Full tables appear in the Voya 2025 disclosure supplement.

5 Making and documenting contributions

You declare deductible amounts on Form 1040 Schedule 1 and track nondeductible basis via **IRS Form 8606** every year you make after-tax contributions. Publication 590-A provides the worksheet to test how much you can put in and whether it is deductible. (Vanguard Personal, IRS)

6 Withdrawals before age 59 ½—rules and penalties

Early distributions are ordinarily subject to income tax **plus a 10 % penalty**, but IRS §72(t) lists exceptions (first-home purchase up to $10 k, higher-education costs, unreimbursed medical bills, qualified birth or adoption up to $5 k, certain emergency needs after 2023). The Voya distribution form asks you to tick the exact exception when you request cash. (Vanguard Personal)

7 Required minimum distributions (RMDs)

Traditional, SEP, SIMPLE, and rollover IRAs now trigger RMDs at **age 73**; the first payment can be delayed until 1 April of the following year but doing so means two taxable withdrawals in that first calendar year. Roth IRAs have no lifetime RMD, yet inherited Roths do. Publication 590-B explains the new ten-year clean-out schedule for most heirs. (IRS)

8 Rollovers and conversions

- **Trustee-to-trustee transfer** – moves assets directly between custodians; unlimited frequency; not reported as income.
- **60-day rollover** – cheque made payable to you; must redeposit within 60 days; limited to one per 12 months across all IRAs.
- **Roth conversion** – taxable event today in exchange for tax-free growth going forward; no income cap after 2010 repeal.
  The Vanguard kit spells out the paperwork for each path. (Vanguard Personal)

9 SIMPLE and SEP—why employers choose them

Business owners gravitate to **SEP IRAs** for their "flex until year-end" funding schedule, and to **SIMPLE IRAs** when they want regular employee salary deferrals but wish to avoid the higher administrative cost of a 401(k). Fidelity's SIMPLE brochure walks employees through salary-reduction mechanics, immediate vesting, and catch-up contributions.

10 Saver's Credit and other tax sweeteners

Low- and moderate-income filers can claim a non-refundable **Saver's Credit** of 10 %–50 % on the first $2,000 contributed, potentially offsetting income-tax liability and stretching retirement dollars further. Vanguard and Fidelity both highlight the credit in their education pieces. (Vanguard Personal)

11 SECURE Act 2.0 updates for 2024-25

Recent legislation added **emergency-expense withdrawals up to $1,000**, a special domestic-abuse withdrawal (lesser of $10,000 or 50 % of the account), and expanded the Roth option inside SEP and SIMPLE plans. Voya's 2025 disclosure supplement includes italicised addenda covering each change.

12 How custodians process distributions

Before cash can leave the account, custodians require a distribution form (or an online equivalent) that captures the reason code, tax-withholding election (10 % federal default), and payment instructions. Voya's form warns beneficiaries that they must supply death certificates and may need a Medallion Signature Guarantee. Vanguard's kit outlines additional forms for charitable rollovers and inherited IRA splits. (Vanguard Personal)

13 Investment menus and fees

IRAs can hold mutual funds, ETFs, individual bonds and stocks, CDs, or insurance-wrapped annuities. Costs range from brokerage commissions and fund expense ratios to annuity M&E charges. Voya's brochure cautions that annuity riders bring higher fees but can lock in lifetime income; Fidelity emphasises its open-architecture FundsNetwork with 9,000+ funds, many NTF.

14 Coordination with employer plans and NPS

U.S. IRAs are separate from India's NPS Tier I and Tier II accounts. NRIs working in the U.S. may fund IRAs if they have U.S.-taxable earned income, but doing so has no bearing on Indian retirement tax rules. Likewise, returning to India does not erase U.S. tax obligations: RMDs remain payable to the IRS even if the account holder is a resident of India.

16 Back-door and mega-back-door Roth strategies

High-income earners who exceed Roth contribution limits can still obtain Roth exposure by funding a **nondeductible Traditional IRA** and then converting it almost immediately—commonly called the **back-door Roth**. The maneuver is perfectly legal provided you aggregate all your pre-tax IRA balances under the **pro-rata rule**: at conversion time the IRS treats every dollar across all IRAs as partly pre-tax, partly after-tax, so conversion income equals *(pre-tax ÷ total)* × amount converted. Form 8606 tracks basis to ensure taxes are computed correctly. A second variant dubbed the **mega back-door Roth** routes salary-deferral "after-tax" contributions into an employer 401(k) and then rolls them into a Roth IRA; this requires a plan that permits **in-service distributions**—Voya's Select Advantage brochure cautions that not every plan document will allow it. Voya Presents

17 Custodial IRAs for minors

A child who earns income from babysitting, acting, or a part-time job may contribute up to that amount (capped at $7,000 for 2025) into a **Custodial Roth IRA**. The account is opened and managed by an adult until the child reaches the age of majority (usually 18 or 21, depending on state law). Voya's custodial-account application spells out the extra signature requirements and notes that the donor—not the custodian—claims the Saver's Credit if eligible. The IRS specifically allows earned income from self-employment by minors but bars passive income like interest or dividends from funding an IRA. Voya PresentsIRS

18 Spousal IRAs and household planning

If one spouse has little or no earnings, the couple can still double their IRA capacity through a **spousal IRA**. Publication 590-A clarifies that the working spouse's compensation can fund the non-working spouse's contribution up to the annual limit, provided the couple files a joint return. Tax software often auto-populates Form 1040 Schedule 1 with the deduction for each spouse, but Voya's Select Advantage form requires you to tick a box confirming the contribution is for the "spousal" owner. This mechanism is a cornerstone for stay-at-home parents to build retirement assets. IRSVoya Presents

19 Prohibited transactions and self-directed IRAs

The attraction of a **self-directed IRA** is access to private real estate, LLC units, or gold bars, but Publication 590-A devotes an entire chapter to **IRC §4975 prohibited transactions**: no personal use of real estate, no loans to "disqualified persons," and no services rendered by the owner. Violating the rules disqualifies the entire IRA as of **January 1 of the year of the breach**, causing the full market value to become taxable and, if under 59 ½, subject to the 10 % penalty. Voya specifically declines to act as custodian for collectibles and directs would-be real-estate investors to specialist trustees. IRSVoya Presents

20 IRA versus 401(k): practical differences

Although both vehicles offer tax-deferred growth, three operational differences matter:

- **Contribution ceiling** – $7 k for IRAs versus $23 k plus $7.5 k catch-up in 401(k)s for 2025.
- **Creditor protection** – ERISA shields 401(k) assets from most lawsuits; IRAs rely on state exemptions, which vary.
- **Investment menu** – IRAs allow an "open architecture" of mutual funds, ETFs, and individual securities; many 401(k)s restrict choices to a curated list.
 Fidelity's SIMPLE IRA brochure points out that smaller companies pick SIMPLE or SEP plans precisely because the administrative burden of a full 401(k) is higher.

Fidelity

21 Expanded penalty exceptions under SECURE 2.0

Starting in 2024, an IRA owner may withdraw up to **$1,000 once per year for an emergency expense** with the option to repay the distribution within three years. Another new exception allows survivors of domestic abuse to remove the lesser of $10,000 or 50 % of the account penalty-free, provided the distribution occurs within one year of the abuse. These provisions appear in the 2024 edition of Publication 590-A under "What's New" and are already incorporated into Voya's 2025 distribution request form. IRSVoya Presents

22 Asset allocation inside an IRA

Retirement theory often suggests placing **tax-inefficient assets** (high-yield bonds, REITs, actively traded funds) inside IRAs and holding long-term equity index funds or munis in taxable accounts. Voya's Select Advantage mutual-fund list illustrates this by offering core bond, high-yield, and REIT funds alongside large-cap equity options; investors can rebalance without generating taxable events. Fidelity's online planning tool echoes the same "asset-location" strategy. Voya PresentsFidelity

23 International considerations for NRIs

Non-resident Indians working in the U.S. may fund IRAs but must remember:

- U.S. taxes still apply to future distributions even after they repatriate.
- India taxes those distributions only to the extent they are received in or accrue within India, subject to the U.S.–India tax treaty.
- The account cannot accept rupee deposits once the owner is a non-resident alien under U.S. tax rules.
  These cross-border issues are not spelled out in IRS pubs but appear in Voya's expatriate disclosures. Voya Presents

24 Key documents every IRA owner should keep

1. **Account application & adoption agreement** (proves type and owner).
2. **Beneficiary designation** (supersedes wills).
3. **Contribution receipts or brokerage confirms** (substantiates basis).
4. **Form 8606 history** (tracks after-tax basis).

5. **Year-end Form 5498** (IRS copy shows contributions and FMV).
   Voya and Vanguard both mail Form 5498 no later than 31 May each year, while Fidelity posts it online.