AAFMAA Wealth Management & Trust LLC

IRA DISCLOSURES 2024

General Information

Part One contains information about the Traditional Individual Retirement Account (Traditional IRA) with AAFMAA Wealth Management & Trust LLC as Trustee. A Traditional IRA provides several tax benefits. Earnings on the assets held in a Traditional IRA are not subject to federal income tax until withdrawn. Part or all of a Traditional IRA contribution may be deductible for federal income tax purposes. State income tax treatment may differ from federal treatment; please consult your tax advisor or state tax department for details.

Traditional IRAs may be used as part of a Simplified Employee Pension (SEP) plan maintained by your employer. Under a SEP your employer may make contributions to your Traditional IRA that may exceed the normal limits on Traditional IRA contributions. Part One includes information about current SEP contribution limits. This document does not describe IRAs established in connection with a SIMPLE IRA program maintained by your employer. Employers provide special explanatory materials for accounts established as part of a SIMPLE IRA program.

Part Two contains information about Roth Individual Retirement Accounts (Roth IRA). Congress created the Roth IRA as part of the Taxpayer Relief Act of 1997. Contributions to a Roth IRA are not tax deductible, but withdrawals that meet certain requirements are not subject to federal income taxes. Earnings and gains on investments held in your Roth IRA generally accumulate tax free until withdrawn.

Part Three contains information on how to revoke your Traditional IRA, investments and prohibited transactions, and certain tax requirements.

Part One: Traditional IRAs

Eligibility

Who is eligible for a Traditional IRA?

Starting January 1, 2020, the SECURE Act eliminated the age restriction for contributions. For the 2020 tax year and subsequent tax years, a taxpayer may contribute to a Traditional IRA regardless of age if at any time during the year the taxpayer received compensation (or earned income if you are self-employed). Alimony is treated as compensation for IRA purposes. If you are a member of the armed forces, nontaxable combat pay is also compensation for IRA purposes.

Can I contribute to a Traditional IRA for my spouse?

You may contribute to a separate Traditional IRA established for the benefit of your spouse, regardless of whether or not your spouse had any compensation or earned income that year. You and your spouse must file a joint tax return for the year in which the contribution is made and total taxable compensation must equal to or exceed total IRA contributions made.

Contributions

When can I make contributions to a Traditional IRA?

You may make a contribution to an existing Traditional IRA or establish a new one for a tax year by the due date (not including any extensions) of your federal income tax return, usually in April of the following year. For example, you have until April 15, 2024 to establish and make a contribution to a Traditional IRA for the 2023 tax year.

How Much can I contribute to my Traditional IRA?

(a) The amount you may contribute for a tax year (except for transfers and rollovers) cannot exceed the lesser of that year's IRA Contribution Limit (see following table) or 100% of your compensation.

IRA Contribution Limits for 2024

Limit	Over age 50 limit
$7,000.00	$8,000.00

(b) The amount you may contribute to your IRA and your spouse's IRA is the lesser of twice that year's IRA Contribution Limit or 100% of your combined compensation. You may not contribute more than the IRA Contribution Limit to any one plan.

If you (or your spouse) establish a new Roth IRA and make contributions to both your Traditional IRA and a Roth IRA, the combined limit on contributions to both your (or your spouse's) Traditional IRA and Roth IRA for a single calendar year is the lesser of the IRA Contribution Limit or 100% of your compensation.

Is my Contribution Tax Deductible?

The amount of your contribution for which you may take a tax deduction will depend upon whether or not you (or, in some cases, your spouse) are an active participant in any employer sponsored retirement plan. If you are not an active participant (or married to an active participant), the entire contribution to your Traditional IRA is deductible.

If you are an active participant (or married to an active participant) in an employer-sponsored plan, the deductibility of your contribution will depend upon your Modified Adjusted Gross Income (MAGI) for the tax year in which the contribution was made.

How do I Determine "Active Participant" Status?

Your (or your spouse's) Form W-2 should indicate if you (or your spouse) were an active participant in an employer sponsored retirement plan for a given year. If you have a question, please consult your employer or the plan administrator.

What are the Deduction Restrictions for Active Participants?

If you (or your spouse) are an active participant in an employer plan during a year, the contribution to your Traditional IRA (or your spouse's Traditional IRA) may be completely, partly, or not deductible depending upon your filing status, MAGI, and statutory Phase-Out Minimum and Maximum Limits. If your MAGI is at or below the minimum limit, the contribution is deductible. If your MAGI falls between the minimum and maximum limits, the contribution is partly deductible. If your MAGI is equal to or exceeds the maximum limit, the contribution is not deductible.

Table of Minimum and Maximum Limits for 2024

Single Filer		Married Filing Jointly/ Qualifying Widow(er) and an Active Plan Participant		Married and Spouse is an Active Plan Participant	
Phase Out Minimum	Phase Out Maximum	Phase Out Minimum	Phase Out Maximum	Phase Out Minimum	Phase Out Maximum
$77,000.00	$87,000.00	$123,000.00	$143,000.00	$230,000.00	$240,000.00

What if my contribution is partly deductible?

If you are an active participant and single:

1. Subtract your MAGI from the Phase-Out Maximum
2. Divide this number by the difference between the Phase-Out Maximum and Minimum
3. Multiply this number by the maximum allowable contribution for the applicable year, including the catch-up contribution if you are age 50 or older
4. Round this result to the next highest $10 if the number is not a multiple of 10. This number is the maximum Traditional IRA deduction you may take.

Example:

Age 40 with MAGI of $79,000
Phase-Out Maximum of $87,000-$79,000=$8,000
Divided by difference between Minimum and Maximum of $10,000
= .8 Times Contribution limit of $7,000 = $5,600 deductible

If you are an active participant, married and file a joint return:

1. Subtract your MAGI from the Phase-Out Maximum
2. Divide this number by the difference between the Phase-Out Maximum and Minimum
3. Multiply this number by the maximum allowable contribution for the applicable year, including the catch-up contribution if you are age 50 or older
4. Round this result to the next highest $10 if the number is not a multiple of 10. This number is the maximum Traditional IRA deduction you may take.

Example:

Age 55 with MAGI of $127,000
Phase-Out Maximum of $143,000-$127,000=$16,000
Divided by difference between Minimum and Maximum of $20,000 = .8
Times Contribution limit of $8,000 = $6,400 deductible

May I make a Non-Deductible Contribution?

You may make non-deductible contributions to your Traditional IRA to the extent that deductible contributions are not permitted. Your total deductible and non-deductible contributions (including any Roth contributions) cannot exceed the lesser of that year's IRA Contribution Limit or 100% of your compensation. Any non-deductible contributions must be reported on your federal income tax return.

If the following conditions are met, you can withdraw excess contributions from your IRA and not include the amount withdrawn in your gross income.

- Total contributions (other than rollover contributions) for your IRA were not more than $7,000 ($8,000 if you are age 50 or older).
- You did not take a deduction for the excess contribution being withdrawn.

The withdrawal can take place at any time, even after the due date, including extensions, for filing your tax return for the year.

Conversion of Traditional IRA

Can I Convert an Existing Traditional IRA into a Roth IRA?

You can convert amounts from a traditional IRA to a Roth IRA in any of the following three ways:

Rollover. You can receive a distribution from a traditional IRA and roll it over (contribute it) to a Roth IRA within 60 days after the distribution.

Trustee-to-trustee transfer. You can direct the trustee of the traditional IRA to transfer an amount from the traditional IRA to the trustee of the Roth IRA.

Same trustee transfer. If the trustee of the traditional IRA also maintains the Roth IRA, you can direct the trustee to transfer an amount from the traditional IRA to the Roth. Conversions made with the same trustee can be made by re-designating the traditional IRA as a Roth IRA, rather than opening a new account.

You must include in your gross income distributions from a traditional IRA that you would have had to include in income if you had not converted them into a Roth IRA. These amounts are normally included in income on your return for the year that you converted them from a traditional IRA to a Roth IRA.

If properly (and timely) rolled over, the 10% additional tax on early distributions will not apply.

You must roll over into the Roth IRA the same property you received from the traditional IRA. You can roll over part of the withdrawal into a Roth IRA and keep the rest of it. The amount you keep will generally be taxable (except for the part that is a return of nondeductible contributions) and may be subject to the 10% additional tax on early distributions.

If you have started taking substantially equal periodic payments from a traditional IRA, you can convert the amounts in the traditional IRA to a Roth IRA and then continue the periodic payments. The 10% additional tax on early distributions will not apply even if the distributions are not qualified distributions (as long as they are part of a series of substantially equal periodic payments).

You cannot convert amounts that must be distributed from your traditional IRA for a particular year under the required distribution rules.

What if I Change my Mind About Converting?

You may be able to convert amounts that have been previously involved in a conversion. You may generally reconvert, for income tax purposes, in the tax year following the conversion. You cannot convert and reconvert an amount during the same tax year or, if later, during the 30-day period following a re-characterization (treating a contribution made to one type of IRA as having been made to a different type of IRA).

To re-characterize a contribution, you generally must have the contribution transferred from the first IRA (the one to which it was made) to the second IRA in a trustee-to-trustee transfer. If the transfer is made by the due date (including extensions) for your tax return for the year during which the contribution was made, you can elect to treat the contribution as having been originally made to the second IRA instead of to the first IRA. If you re-characterize your contribution, you must do all three of the following.

1. Include in the transfer any net income allocable to the contribution. If there was a loss, the net income you must transfer may be a negative amount.
2. Report the re-characterization on your tax return for the year during which the contribution was made.
3. Treat the contribution as having been made to the second IRA on the date that it was actually made to the first IRA.

You cannot deduct the contribution to the first IRA. Any net income you transfer with the re-characterized contribution is treated as earned in the second IRA. The contribution will not be treated as having been made to the second IRA to the extent any deduction was allowed for the contribution to the first IRA.

If you want to re-characterize a converted amount, you must do so before the due date (including any extensions) for your federal income tax return for the year of conversion. Any net income (whether gain or loss) on the amount re-characterized must accompany it back to the Traditional IRA.

You may re-characterize for any reason. If you convert and then re-characterize during a year, you can convert to a Roth IRA a second time if you wish, but you must wait until the later of the next tax year after your original conversion or until 30 days after your re-characterization. You are limited to one conversion of an account per year. If you convert an account more than once in a year, any additional conversion transactions will be considered invalid and subject to rules for excess contributions.

Transfers/Rollovers

Can I transfer or rollover a distribution I receive from my employer's retirement plan into a Traditional IRA?

Most distributions from employer 401(k) plans or 403(b) arrangements (for employees of tax-exempt employers) or eligible 457 plans (for employees of certain governmental plans) are eligible for rollover to a Traditional IRA. The main exceptions are:

- Payments over the lifetime or life expectancy of the participant (or participant and a designated beneficiary)
- Installment payments for a period of 10 years or more;
- Required distributions (generally the rules require distributions starting at age 72 or for certain employees starting at retirement, if later), and
- Hardship withdrawals from a 401(k) plan or a 403(b) arrangement.

If you are eligible to receive a distribution from a tax qualified retirement plan as a result of termination of employment, plan discontinuance, or retirement, all or part of the distribution may be transferred directly into a Traditional IRA. This is a called a "direct rollover." Or, you may receive the distribution and make a rollover to your Traditional IRA within 60 days. By making a direct rollover or a regular rollover, you can defer income taxes on the amount rolled over until you make withdrawals from your IRA.

A rollover to a Traditional IRA must be completed within 60 days after the distribution from the employer retirement plan to be valid.

A qualified plan administrator or 403(b) sponsor must withhold 20% of your plan distribution for federal income taxes unless you elect a direct rollover. Your plan administrator or 403(b) sponsor is required to provide you with information about direct and regular rollovers and withholding taxes before you receive your distribution and must comply with your directions to make a direct rollover.

Once I have rolled over a plan distribution into a Traditional IRA, can I subsequently roll over into another employer's plan?

Yes. Part or all of an eligible distribution received from a qualified plan may be withdrawn from the Traditional IRA and rolled over to another qualified plan within 60 days of the date of withdrawal, if such qualified plan permits.

Can an amount held in my traditional IRA be rolled over into an employer’s retirement plan?

You may roll over, directly or indirectly, any eligible rollover distribution from your Traditional IRA to an employer’s qualified plan, 403(a) annuity, 403(b) tax sheltered annuity, or 457(b) eligible governmental deferred compensation plan so long as the employer sponsored plan accepts such rollover contributions. An eligible rollover distribution is defined as any taxable distribution from a Traditional IRA that is not a part of a required minimum distribution.

Can I make a rollover from my Traditional IRA to another Traditional IRA?

You may make a rollover from one Traditional IRA to another Traditional IRA that you already have or one you establish to receive the rollover. A rollover must be completed within 60 days after the withdrawal from your first IRA. You may not have completed another Traditional IRA to Traditional IRA rollover from the distributing IRA during the 12 months preceding the date you receive the distribution. In addition, after Traditional IRA assets are rolled over from one IRA to another, a second rollover of the same assets cannot be made for a full year (365 days).

What is a Direct Transfer?

As an alternative to a rollover, you may make a direct transfer from one Traditional IRA custodian to another. The one year waiting period does not apply to direct transfers from one Traditional IRA custodian to another.

How do rollovers affect my contribution or deduction limits?

Rollover contributions do not count toward the maximum contribution. Also, rollovers are not deductible and they do not affect your deduction limits.

Withdrawals/Distributions

When may I take withdrawals from my Traditional IRA?

You may take withdrawals from your Traditional IRA at any time. However, if you withdraw any funds from your Traditional IRA before age 59 ½, the amount withdrawn may be subject to a 10% penalty tax in addition to regular income taxes.

When must I start taking withdrawals?

For taxpayers reaching 70 ½ on or before December 31, 2019: If you had not withdrawn the total amount held in your Traditional IRA by April 1 of the following the year in which you reach 70 ½, you must take minimum withdrawals to avoid penalty taxes. These minimum withdrawals must be taken by December 31 each following year.

For taxpayers who did not reach age 70 ½ on or before December 31, 2019 but did reach age 72 on or before December 31,2022: Required minimum withdrawals must be taken by April 1 following the year in which you reach age 72 to avoid penalty taxes. These minimum withdrawals must be taken by December 31 each following year.

For taxpayers who reached age 72 on or after January 1, 2023: Required minimum withdrawals must be taken by April 1 following the year in which you reach age 73 to avoid penalty taxes. These minimum withdrawals must be taken by December 31 each following year.

An additional tax of 50% is imposed on the amount of any required minimum distribution that should have been taken but was not.

How much must I withdraw each year?

The minimum distribution for any taxable year is equal to the amount obtained by dividing the account balance at the end of the prior year by the “applicable divisor” for your distribution period The applicable divisor is determined by finding your attained age on the IRS Uniform Table (Treasury Regulation Section 1.401(a)(9)-9, Q&A2).

If you name your spouse as your Designated Beneficiary and your spouse is more than 10 years younger than you, you must use the distribution period obtained by using the divisor determined by finding the intersection of your age and your spouse’s age on the Joint and Survivor Table (Treasury Regulation Section 1.401(a)(9)-9) to find your required minimum distribution.

How are distributions from my Traditional IRA taxed?

If you have only made deductible contributions, any Traditional IRA distribution will be fully included in your gross income in the tax year received. If you have ever made any non-deductible contributions to a Traditional IRA, you need to divide the Aggregate Nondeductible Contributions multiplied by the Amount Withdrawn by the Aggregate IRA Balance to determine the Amount Excluded from Gross Income in the year received. Note that the Aggregate IRA Balance includes the total balance of all of your IRAs as of the end of the year of distribution.

Any withdrawal from your Traditional IRA, except a direct transfer, is subject to federal income tax withholding. You may, however, elect not to have withholding apply to your Traditional IRA withdrawal. If withholding is applied to your withdrawal, not less than 10% of the amount withdrawn must be withheld. State income tax withholding may also apply. Since the purpose of a Traditional IRA is to accumulate funds for retirement, your receipt or use of any portion of your Traditional IRA before you attain age 59 ½ generally will be considered as an early withdrawal and subject to a 10% penalty tax, unless the distribution is:

- Made because you die or become disabled
- Made for health insurance premiums to individuals unemployed for 12 or more consecutive weeks
- Rolled over to another IRA within 60 days
- A timely withdrawal of an excess contribution
- Part of a series of substantially equal periodic payments (made at least annually) over your life or life expectancy or the joint lives or joint life expectancies of you and your beneficiary
- Used to pay for medical expenses in excess of 10% of your adjusted gross income

- A “qualified” first-time home purchase, with a lifetime limit of $10,000. You must use the distribution within 120 days of receiving it to pay the costs to acquire, construct or reconstruct your principal residence. Settlement, financing and closing costs can be included. The residence must be the homebuyer’s primary home, not a second home.
- For qualified higher education expenses (including tuition, fees, books, supplies, and equipment) required for enrollment or attendance at certain eligible post-secondary educational institutions (including most colleges, universities, and vocation schools, whether private, public, or nonprofit). Otherwise qualified higher education expenses must be reduced by certain scholarships, Veterans’ benefits and U.S. Savings Bonds redemptions.
- Qualified reservist distributions. A distribution you receive is a qualified reservist distribution if you were ordered or called to active duty after September 11, 2001 for a period of more than 179 days or for an indefinite period because you are a member of a reserve component. Qualifying distributions are from an IRA or from amounts attributable to elective deferrals under a section 401(k), 403(b) or similar arrangement and made no earlier than the date of the order or call to active duty and no later than the close of the active duty period. “Reserve component” means Army National Guard of the United States, Army Reserve, Naval Reserve, Marine Corps Reserve, and Air National Guard of the United States, Air Force Reserve, Coast Guard Reserve, or Reserve Corps of the Public Health Service.
- A terminal illness that will cause death within seven years as certified by a physician.
- Disaster relief up to $22,000 for expenses related to a federally declared disaster. The distribution must be made within 180 days of the disaster occurrence.

How will my Traditional IRA be distributed to my beneficiaries?

If the **decedent was under RMD age** and **a surviving spouse** is the sole Beneficiary, they may

1. **Elect to treat the IRA as their own.** IRA assets will continue to grow tax deferred. Thesame distribution rules will apply as if the IRA had belonged to the spouse originally, so if the surviving spouse has not reached aged 59 ½, distributions cannot be made without paying the 10% early withdrawal penalty (unless satisfying one of the penalty exceptions). The surviving spouse may designate their own beneficiary.

2. **Open an Inherited IRA account held in their name (Life Expectancy Method).** Mandatory distributions must begin no later than December 31 of the year the decedent would have reached RMD age. These annual distributions (RMDs) are spread over the surviving spouse’s single life expectancy, determined by the spouse’s age in the calendar year following the year of death (reevaluated each year) and are fully taxable. Undistributed assets can continue growing tax free. There is no 10% early withdrawal penalty. The surviving spouse may designate their own beneficiary.

3. **Open an Inherited IRA account held in their name (5 Year Method).** No RMDs are required, but the account must be distributed in full by December 31 of the fifth year after the year in which the original account holder died. Each distribution is fully taxed. There is no 10% early withdrawal penalty. Undistributed assets can continue growing tax-free for up to five years. The surviving spouse may designate their own beneficiary.

4. **Request a Lump Sum Distribution**. All assets in the IRA are distributed to the surviving spouse at one time. The full amount of the account is subject to income tax at distribution, but there is no 10% early withdrawal penalty. This option might place the surviving spouse in a higher income tax bracket depending upon the amount of the distribution and the spouse’s income level.

If the **decedent was over RMD age** and **a surviving spouse** is the sole Beneficiary, they may

1. **Elect to treat the IRA as his/her own.** IRA assets will continue to grow tax deferred. The surviving spouse must take a RMD for the year of death (if not already taken). The same distribution rules will apply as if the IRA had belonged to the spouse originally, so if the surviving spouse has not reached aged 59 ½, distributions (other than the RMD) cannot be made without paying the 10% early withdrawal penalty (unless satisfying one of the penalty exceptions). The surviving spouse may designate their own beneficiary.

2. **Open an Inherited IRA account held in his/her name (Life Expectancy Method).** If an RMD had not already been taken in the year of death, one must be taken by December 31 of the year of death. The surviving spouse must begin taking a fully taxable RMD by December 31 of the year following the year of death, spread over the

longer of the survivor's single life expectancy (determined by the spouse's age in the calendar year following the year of death and reevaluated each year) or the decedent's remaining life expectancy. Undistributed assets can continue growing tax free. There is no 10% early withdrawal penalty. The surviving spouse may designate their own beneficiary.

3. **Request a Lump Sum Distribution.** All assets in the IRA are distributed to the surviving spouse at one time. The full amount of the account is subject to income tax at distribution, but there is no 10% early withdrawal penalty. This option might place the surviving spouse in a higher income tax bracket depending upon the amount of the distribution and the spouse's income level.

If the **decedent was under RMD age** and the Beneficiary is **another individual**, they may:

1. **Open an Inherited IRA account held in their name (10 year payout method).** Once the funds are transferred to an inherited IRA, the beneficiary will have a 10 year period starting at the decedent's date of death to distribute the entire balance of the account. If there are multiple beneficiaries, separate accounts must be established for each beneficiary. The withdrawal(s) are mandatory and fully taxable. They may be taken in increments or in a lump sum at any point before the end of the 10 year period. There is no 10% early withdrawal penalty. Each beneficiary may designate their own beneficiary.

2. **Request a Lump Sum Distribution.** All assets in the IRA are distributed to the beneficiary at one time. The full value of the account is subject to income tax at distribution; there is no 10% early withdrawal penalty. This option might place the beneficiary in a higher income tax bracket depending upon the amount of the distribution and their current income level.

If the **decedent was over RMD age** and the Beneficiary is **another individual**, they may:

1. **Open an Inherited IRA account held in their name (10 year payout method).** Once the funds are transferred to an inherited IRA, the beneficiary will have a 10 year period starting at the decedent's date of death to distribute the entire balance of the account. If there are multiple beneficiaries, separate accounts must be established for each beneficiary. The withdrawal(s) are mandatory and fully taxable. They may be taken in increments or in a lump sum at any point before the end of the 10 year period. There is no 10% early withdrawal penalty. Each beneficiary may designate their own beneficiary.

2. **Request a Lump Sum Distribution.** All assets in the IRA are distributed to the beneficiary at one time. The full value of the account is subject to income tax at distribution; there is no 10% early withdrawal penalty. This option might place the beneficiary in a higher income tax bracket depending upon the amount of the distribution and their current income level.

A **trust** may also be named as an IRA beneficiary. The distribution options differ depending upon whether the trust is a **qualified trust** or a **non-qualified** trust.

If the answer to all three of these questions is "yes", it is most likely a **qualified trust**:

1. Is the trust irrevocable, or did it become irrevocable when the IRA owner died?
2. Is the trust valid under state law?
3. Does the trust document identify the beneficiary(ies)?

If the **decedent was under RMD age** and a **qualified trust** is the beneficiary, then:

Open an inherited IRA in the name of the decedent for the benefit of the trust. Beneficiaries of the trust cannot establish their own inherited IRAs. The account balance must be distributed by the end of a 10 year payout period beginning at the decedent's date of death. There is no 10% withdrawal penalty. The trust or its beneficiaries will pay income taxes on the taxable portion of each distribution.

If the **decedent was over RMD age** and a **qualified trust** is the beneficiary, then:

Open an inherited IRA in the name of the decedent for the benefit of the trust. Beneficiaries of the trust cannot establish their own inherited IRAs. The account balance must be distributed by the end of a 10 year payout period beginning at the decedent's date of death. There is no 10% withdrawal penalty. The trust or its beneficiaries will pay income taxes on the taxable portion of each distribution.

In general, a qualified trust as an IRA beneficiary is subject to the 10 year payout period. Under certain circumstances a trust as IRA beneficiary may be subject to a 5 year payout period.

SEP IRAs

What is a SEP IRA?

A SEP IRA plan (Simplified Employee Pension) is designed for self-employed individuals and small business owners to save for retirement without getting involved in complex plan administration. Almost any type of business can establish a SEP IRA. An individual earning self-employment income by providing a service (either full or part time) can also establish a SEP IRA, even if already covered by a retirement plan elsewhere.

All eligible employees must participate in a SEP IRA plan. If just one eligible employee does not open a SEP IRA account to receive employer contributions, the whole plan could be disqualified. To avoid this result, an employer is permitted to open a SEP IRA for any eligible employee who cannot or will not open one.

How is a SEP IRA funded?

A SEP IRA is funded with employer contributions only. It does not need to be funded annually, but if the employer contributes for themselves, contributions must be made for all eligible employees, including those who terminated employment during the year. Full vesting is immediate.

What are the SEP IRA contribution limits?

In 2024 the maximum permitted contribution is the lesser of 25% of total compensation or $69,000. Up to $345,000 of compensation may be considered in the calculation for 2024. The calculation formula and limits are different for self-employed individuals.

How does the IRS regard SEP IRAs?

Each employee's account is treated as a Traditional IRA, and all Traditional IRA rules for withdrawals, penalties and RMDs apply equally to SEP IRAs.

Part Two: Roth IRAs

Eligibility

What are the eligibility requirements for a Roth IRA?

You are eligible to establish and contribute to a Roth IRA for a year if you receive compensation (or earned income if you are self-employed) or alimony (which is treated as compensation) and your (and your spouse's) modified adjusted gross income is within the limits described below. You may continue to make contributions to your Roth IRA any year you have earned income.

Can I contribute to Roth IRA for my spouse?

If you meet the eligibility requirements you can contribute to your own Roth IRA, and also to a separate Roth IRA for your spouse out of your compensation or earned income, regardless of whether your spouse had compensation or earned income that year. This is called a "spousal Roth IRA." To make a contribution to a Roth IRA for your spouse, you must file a joint tax return with your spouse. For a spousal Roth IRA, your spouse must set up a different Roth IRA, separate from yours, to which you contribute.

Contributions

When can I make contributions to a Roth IRA?

You may make a contribution to your Roth IRA or establish a new Roth IRA for a tax year by the due date (not including any extensions) for your federal income tax return for the year, usually April 15 of the following year. For example, you will have until April 15, 2024 to establish and make a contribution to a Roth IRA for 2023.

How much can I contribute to my Roth IRA?

(a) For each year that you are eligible, the amount you may contribute (except for transfers and rollovers) cannot exceed the lesser of that year's IRA Contribution Limit (see following table) or 100% of your compensation.

ROTH IRA Contribution Limits for 2024

Limit	Over age 50 limit
$7,000.00	$8,000.00

(b) If you (or your spouse) establish a Roth IRA and make contributions to both your Traditional IRA and the Roth IRA, the combined limit on contributions to both your (or your spouse's) Traditional IRA and Roth IRA for a single calendar year is the lesser of the IRA Contribution Limit or 100% of your compensation.
(c) Your Roth IRA contribution is not limited by your participation in a retirement plan other than a Traditional IRA.

Are contributions to a Roth IRA tax deductible?

Contributions to a Roth IRA are not tax deductible.

Are the earnings on my Roth IRA funds taxed?

Earnings or gains on investments held in your Roth IRA are generally exempt from federal income taxes and will not be taxed until withdrawn by you, unless the tax exempt status of your Roth IRA is revoked. If the withdrawal qualifies as a tax-free withdrawal (see Withdrawals/Distributions), amounts reflecting earnings or growth of assets in your Roth IRA will not be subject to federal income tax.

Are there any restrictions on contributions to my Roth IRA?

Taxpayers with high income levels may not be able to contribute to a Roth IRA at all, or their contribution may be limited to an amount less than the IRA Contribution Limit if their modified adjusted gross income (MAGI) falls within the reduced contribution range.

Roth IRA Contribution Limits for 2024 *Modified Adjusted Gross Income (MAGI) Level*

If you are a Single Taxpayer	If you are Married Filing Jointly	Then you may make
Up to $146,000	Up to $230,000	Full Roth IRA Contribution
More than $146,000 but less than $161,000	More than $230,000 but less than $240,000	Reduced Roth IRA Contribution Limit (See explanation below)
$161,000 and up	$240,000 and up	Zero (No Contribution)

How do I calculate my limit if I fall in the "Reduced Contribution" range?

If you are single:

1. Subtract $146,000 from your MAGI
2. Divide the difference by $15,000
3. Multiply this number by the maximum allowable contribution for the applicable year, including the catch-up contribution if you are age 50 or older.
4. Round this result to the next highest $10 if the number is not a multiple of 10. This number is the maximum Roth IRA contribution you may make.

Example:
Age 40 with MAGI of $148,000
$2,000 divided by $15,000 = .13
Multiplied by maximum allowable contribution of $7,000 = $910 reduction factor amount. Maximum allowable contribution of $7,000- $910 reduction factor amount = $6,090 maximum contribution permitted.

If you are married and file a joint return:

1. Subtract $230,000 from your MAGI
2. Divide the difference by $10,000
3. Multiply this number by the maximum allowable contribution for the applicable year, including the catch-up contribution if you are age 50 or older.
4. Round this result to the next highest $10 if the number is not a multiple of 10. This number is the maximum Roth IRA contribution you may make.

Example:
Age 55 with MAGI of $235,000
$5,000 divided by $10,000 = .5
Multiplied by maximum allowable contribution of $8,000 = $4,000 reduction factor amount $8,000- $4,000 reduction factor= $4,000 maximum contribution permitted

What if I contribute more than allowed to my Roth IRA?

The maximum contribution you can make to a Roth IRA generally is the IRA Contribution Limit (plus the amount of any "catch-up" contribution, if eligible) or 100% of compensation or earned income, whichever is less. Your maximum is reduced by the amount of any contribution to a Traditional IRA for the same year and may be further reduced as described above if you have high MAGI. Any amount contributed to a Roth IRA above the maximum is considered an "excess contribution" and is subject to a 6% excise tax for each year it remains in the Roth account.

How can I correct an excess contribution?

Excess contributions may be corrected without paying a 6% penalty. To do so, you must withdraw the excess contribution and all earnings attributable to it before the due date (including extensions) of your federal income tax return for the year in which you made the excess contribution. The IRS automatically grants taxpayers, who file their taxes by the April 15th deadline, a six-month extension (until October 15) to remove an excess contribution for the tax year covered by that filing. Refer to IRS Publication 590 to see how the amount you must withdraw to correct an excess contribution may be adjusted to reflect gain or loss. Earnings on the excess contribution must also be withdrawn and included in your income for the tax year for which the excess contribution was made and may be subject to a 10% premature distribution tax if you have not reached age 59 ½.

Excess contributions may be corrected in a subsequent year to the extent you contribute less than your maximum contribution amount. As the prior excess contribution is reduced or eliminated, the 6% excise tax will become correspondingly reduced or eliminated for subsequent tax years.

What if I don't correct the excess contribution by the tax return due date?

Any excess contribution withdrawn after the tax return due date (including any extensions) for the year for which the contribution was made will be subject to the 6% excise tax. There will be an additional 6% excise tax for each year the excess remains in your account

How are excess contributions treated for income tax purposes?

Generally, an excess contribution and any earnings on it withdrawn after tax filing time will be includible in taxable income and may be subject to a 10% premature withdrawal penalty. No deduction will be allowed for the excess contribution for the year in which it is made.

Conversion of Traditional IRA to Roth

What are the tax results of converting?

The amount of conversion from your Traditional IRA to a Roth IRA is treated as a distribution for income tax purposes and is included in your gross income (except for any non-deductible contributions) for the year of the conversion. The 10% early distribution penalty does not apply to conversions from a Traditional IRA to a Roth IRA, regardless of whether or not you qualify for any exceptions to the 10% penalty.

If you convert a Traditional IRA to a Roth IRA, income tax withholding will apply unless you elect not to have withholding. However, withholding income taxes from the amount converted (instead of paying applicable income taxes from another source) may adversely affect the anticipated financial benefits of converting.

Can I convert a SEP IRA or SIMPLE IRA account to a Roth IRA?

If you have a SEP IRA as part of an employer simplified employee pension (SEP) program, or a SIMPLE IRA as part of an employer SIMPLE IRA program, you can convert the IRA to a Roth IRA. A two year waiting period applies to SIMPLE IRA rollovers to a ROTH IRA.

Should I convert my Traditional IRA to a Roth IRA?

Only you can answer this question, in consultation with your tax or financial advisers. A number of factors may be relevant. Conversion may be advantageous if you expect to leave the converted funds on deposit in your Roth IRA for at least five years and to be able to withdraw the funds under circumstances that will not be taxable. The benefits of converting will also depend on whether you expect to be in the same tax bracket when you withdraw from your Roth IRA as you are now. Conversion is based upon an assumption that Congress will not change the tax rules for withdrawals from Roth IRAs in the future, but this cannot be guaranteed.

Transfers/Rollovers

Can I transfer or roll over a distribution I receive from my employer's retirement plan into a Roth IRA?

You can roll over into a Roth IRA all or part of an eligible rollover distribution you receive from your (or your deceased spouse's) Employer's qualified pension, profit-sharing, or stock bonus plan (including a 401(k) plan), Annuity plan, Tax-sheltered annuity plan (section 403(b) plan), or Governmental deferred compensation plan (section 457(b) plan).

Any amount rolled over is subject to the same rules for converting a Traditional IRA into a Roth IRA. Also, the rollover contribution must meet the rollover requirements that apply to the specific type of retirement plan.

You can roll over amounts from a qualified retirement plan to a Roth IRA in one of the following ways.

1. Rollover. You can receive a distribution from a qualified retirement plan and roll it over (contribute) to a Roth IRA within 60 days after the distribution. Since the distribution is paid directly to you, the payer generally must withhold 20%.
2. Direct rollover option. Your employer's qualified plan must give you the option to have any part of an eligible rollover distribution paid directly to a Roth IRA. Generally, no tax is withheld from any part of the designated distribution that is directly paid to the trustee of the Roth IRA.

Can I make a rollover from my Roth IRA to another Roth IRA?

You may make a rollover from one Roth IRA to another Roth IRA you have or you establish to receive the rollover. Such a rollover must be completed within 60 days after the distribution from the first Roth IRA is received.

You may not have completed another Roth IRA to Roth IRA rollover from the distributing Roth IRA during the 12 months preceding the date you receive the distribution. Further, you may roll over the same dollars or assets only once every 12 months. Roth IRA assets may not be rolled over to other types of IRAs.

What other types of rollovers are available for my Roth IRA?

Military Death Gratuities and Servicemembers' Group Life Insurance (SGLI) Payments.

If you received a military death gratuity or SGLI payment with respect to a death from injury that occurred after October 6, 2001, you can contribute (roll over) all or part of the amount received to your Roth IRA. The contribution is treated as a qualified rollover contribution.

The amount you can roll over to your Roth IRA cannot exceed the total amount that you received, reduced by any part of that amount that was contributed to a Coverdell ESA or another Roth IRA. Any military death gratuity or SGLI payment contributed to a Roth IRA is disregarded for purposes of the 1-year waiting period between rollovers.

The rollover must be completed before the end of the 1-year period beginning on the date you received the payment.

The amount contributed to your Roth IRA is treated as part of your cost basis (investment in the contract) in the Roth IRA and is not taxable when distributed.

How do rollovers affect my Roth IRA contribution limits?

Rollover contributions do not count toward the IRA Contribution Limit. Also, you may make a rollover from one Roth IRA to another even during a year when you are not eligible to contribute to a Roth IRA (for example, your MAGI is too high).

Withdrawals/Distributions

When can I take withdrawals from my Roth IRA?

You can take withdrawals from your Roth IRA at any time. If the withdrawal meets the requirements for a qualified distribution, it is tax-free.

When must I start taking withdrawals?

You are not required to take a minimum distribution from your Roth IRA starting at your RMD age. After your death, there are IRS rules on the timing and amount of distributions.

What is a qualified distribution?

A qualified distribution is any payment or distribution from a Roth IRA that meets the following requirements.

1. It is made after the 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for your benefit, and
2. The payment or distribution is:
    a. Made on or after the date you reach age 59½,
    b. Made because you are disabled
    c. Made to a beneficiary or to your estate after your death, or
    d. One that meets the requirements listed under First-Time Homebuyer exception

How is a non-qualified distribution taxed?

If you do not meet the requirements for a qualified distribution, any earnings you withdraw from your Roth IRA will be included in your gross income and, if you are under age 59 ½, may be subject to an early distribution penalty.

When you take a distribution, the amounts you contributed annually to any Roth IRA and any death payment gratuity or SGLI life insurance proceeds rolled over to a Roth IRA will be deemed removed first, followed by conversion contributions made to any Roth IRA on a first-in, first-out basis.

Non-qualified distributions will not be taxable to you until your withdrawals exceed the amount of your annual contributions, military death gratuity or SGLI payments and your conversions.

Your receipt of any non-qualified withdrawal from your Roth IRA before you attain age 59 ½ generally will be considered as an early withdrawal and subject to a 10% penalty tax, unless the distribution is:

- Made because you die or become disabled
- Made to individuals unemployed for 12 or more consecutive weeks for health insurance premiums
- Rolled over to another IRA within 60 days
- A timely withdrawal of an excess contribution
- Part of a series of substantially equal periodic payments (made at least annually) over your life or life expectancy or the joint lives or joint life expectancies of you and your beneficiary
- Used to pay for medical expenses in excess of 10% of your adjusted gross income
- A “qualified” first-time home purchase, with a lifetime limit of $10,000. You must use the distribution within 120 days of receiving it to pay the costs to acquire, construct or reconstruct your principal residence. Settlement, financing and closing costs can be included. A qualified first-time home buyer includes you, our spouse any of your children, grandchildren or parents (or the children, grandchildren or parents of your spouse) and only if the homebuyer had no ownership interest in a principal residence during the two years immediately preceding the date the buyer acquires the new residence. The residence must be the homebuyer’s primary home, not a second home.
- For qualified higher education expenses (including tuition, fees, books, supplies, and equipment required for enrollment of attendance at certain eligible post-secondary educational institutions (including most colleges, universities, and vocational schools, whether private, public or nonprofit). Room-and-board is also an eligible expense for a student enrolled at least half-time. The student can be you, your spouse, or the child or grandchild of you or your spouse. Otherwise qualified higher education expenses must be reduced by certain scholarships, Veterans’ benefits and U.S. Savings Bonds redemptions.
- Qualified reservist distributions. A distribution you receive is a qualified reservist distribution if you were ordered or called to active duty after September 11, 2001 for a period of more than 179 days or for an indefinite period because you are a member of a reserve component. Qualifying distributions are from an IRA or from amounts attributable to elective deferrals under a section 401(k), 403(b) or similar arrangement and was made no earlier than the date of the order or call to active duty and no later than the close of the active duty period. “Reserve component” means Army National Guard of the United States, Army Reserve, Naval Reserve, Marine Corps Reserve, Air National Guard of the United States, Air Force Reserve, Coast Guard Reserve, or Reserve Corps of the Public Health Service.

How will my Roth IRA be distributed to my beneficiaries?

If you die before receiving all of the amounts in your account, distributions must be made to your beneficiary(ies). You may change beneficiaries at any time up until your death. Although you are not required to take distributions from your Roth IRA account while you are alive, your beneficiary(ies) must take minimum distributions after your death.

If **a surviving spouse** is the sole Beneficiary, they may

1. **Elect to treat the Roth IRA as their own**. Earnings on the account will generally be taxable until the surviving spouse reaches 59 ½ and the five year holding period has been satisfied. Distribution rules, including early withdrawal penalties, will be the same as if the spouse had been the original Roth IRA owner.

2. **Open an Inherited IRA account held in their name (Life Expectancy Method).** Required Minimum Distributions (RMDs) are mandatory but may be postponed until the *later* of (a) when the decedent would have attained RMD age or (b) December 31 of the year following the year of death. Distributions are spread over the surviving spouse’s single life expectancy. Providing the five year holding period has been met, distributions may be taken tax free. Undistributed assets can continue growing tax free. There is no 10% early withdrawal penalty. The surviving spouse may designate their own beneficiary.

3. **Open an Inherited IRA account held in his/her name (10 year payout period).** No RMDs are required, but the account must be distributed in full by December 31 of the tenth year after the year in which the original account holder died. Distributions may be taken during that period without being taxed, provided the five year holding period has been met. There is no 10% early withdrawal penalty. Undistributed assets can continue

growing tax-free for up to ten years. The surviving spouse may designate his/her own beneficiary.

4. **Request a Lump Sum Distribution.** All assets in the Roth IRA are distributed to the surviving spouse at one time. If the account is less than five years old at the time of the account holder's death, its earnings are taxable at distribution.

If the Beneficiary is **another individual**, he/she may:

1. **Open an Inherited IRA account held in his/her name (10 year payout period).** The beneficiary(ies) must withdrawal the entire balance within a 10 year period starting at the decedent's date of death. If there are multiple beneficiaries, separate accounts must be established by December 31 of the year following the year of death. Providing the five year holding period has been met, distributions may be taken tax free. Undistributed assets can continue growing tax free. There is no 10% early withdrawal penalty. Each beneficiary may designate his/her own beneficiary.

2. **Request a Lump Sum Distribution.** All assets in the Roth IRA are distributed to the beneficiary at one time. If the account is less than five years old at the time of the account holder's death, its earnings are taxable at distribution.

A **trust** may also be named as a Roth IRA beneficiary. The distribution options differ depending upon whether the trust is a **qualified trust** or a **non-qualified** trust.

If the answer to all three of these questions is "yes", it is most likely a **qualified trust**:

1. Is the trust irrevocable, or did it become irrevocable when the IRA owner died?
2. Is the trust valid under state law?
3. Does the trust document identify the beneficiary(ies)?

If a **qualified trust** is the beneficiary, then:

Open an inherited Roth IRA in the name of the decedent for the benefit of the trust. Any earnings are generally tax free if the five year holding period has been satisfied. RMDs must begin no later than December 31 following the year of the decedent's death. If a spouse is the sole beneficiary of the trust, their single life expectancy may be used. If the beneficiary is not a spouse, distributions must be taken by the end of a 10 year period starting with the decedent's date of death. Undistributed assets will continue to grow tax free and there is no 10% early withdrawal penalty.

If a **non-qualified trust** is the beneficiary, then:

Open an inherited Roth IRA in the name of the decedent for the benefit of the trust. Any earnings are generally tax free if the five year holding period has been satisfied. Undistributed assets will continue to grow tax free and there is no 10% early withdrawal penalty. Distributions may be delayed until the end of the tenth year after the year of the decedent's death, at which point all assets must be distributed.

Part Three: Rules for Both Traditional IRAs and Roth IRAs

IRA Requirements

All IRAs must meet certain requirements. Contributions generally must be made in cash. The IRA trustee or custodian must be a bank or other person who has been approved by the Secretary of the Treasury. Your contributions may not be invested in life insurance or collectibles or be commingled with other property except in a common trust or investment fund. Your interest in the account must be non-forfeitable at all times. You may obtain further information on IRAs from any district office of the IRS.

May I revoke my IRA?

You may revoke a newly established Traditional or Roth IRA at any time. To revoke your Traditional or Roth IRA, mail or deliver a written notice of revocation to AAFMAA Wealth Management & Trust at the address that appears at the end of this Disclosure Statement. Mailed notice will be deemed given on the date that it is postmarked (or, if sent by certified or registered mail, on the date of certification or registration).

Are there any restrictions on the use of my IRA assets?

The tax-exempt status of your Traditional or Roth IRA will be revoked if you engage in any of the prohibited transactions listed in Section 4975 of the Internal Revenue Code. Upon such revocation, your Traditional or Roth IRA is treated as distributing its assets to you. The taxable portion of the amount in your IRA will be subject to income tax (unless, in the case of a Roth IRA, the requirements for a tax-free withdrawal are satisfied). You may be subject to a 10% penalty tax on the taxable amount as a premature withdrawal if you have not yet reached the age of 59 ½. There may also be prohibited transaction penalty taxes.

Any investment in collectibles (for example, rare stamps) by your Traditional or Roth IRA is treated as a withdrawal; the only exception involves certain types of government sponsored coins or certain types of precious metal bullion.

What is a Prohibited Transaction?

If you or your beneficiary engage in a prohibited transaction with your IRA, as defined in Section 4975 of the Internal Revenue Code, your IRA will lose its tax exempt status.

Examples of prohibited transactions are:

1. Borrowing from your IRA, or
2. Selling or leasing property to your IRA, or
3. Buying or leasing property from your IRA

A prohibited transaction involving your Traditional IRA requires you to include the value of your account in your gross income for that tax year. A prohibited transaction involving your Roth IRA requires you to include the value of the earnings in your account in your gross income for that tax year.

If you pledge any portion of your IRA as collateral for a loan, the amount pledged will be treated as a distribution and will be included in your gross income for that year. For a Roth IRA, the amount pledged will be included in income if it represents a taxable portion of the account (i.e., earnings).

What reporting is provided to the IRS?

All withdrawals are reported to the IRS and the recipient on Form 1099-R. For reporting purposes, a direct transfer of assets to a successor custodian or trustee is not considered a withdrawal (except for such a transfer that effects a conversion of a Traditional IRA to a Roth IRA, or a re-characterization of a Roth IRA back to a Traditional IRA).

Since all IRAs are considered together when determining the tax treatment of withdrawals, and since you may have other IRAs with other custodians (about which we have no information) **you have sole responsibility for correctly reporting withdrawals on your tax return**. It is **essential** that you keep proper records and report the income taxes properly if you have multiple IRAs.

The year-end value of your account and the amount of any rollover (including conversions of a Traditional to a Roth IRA) or a regular contribution made during a calendar year, as well as the tax year for which a contribution is made is also reported to the IRS. Be sure to indicate the tax year to which a contribution applies. Unless indicated otherwise, a contribution will be designated for the tax year in which it is received. It is very important that contributions received between January 1 and April 15 specify the tax year.

The discussion of tax rules for IRAs in this Disclosure Statement is based on the best available information. There may be changes in IRS regulations or further legislation on the requirements for and tax treatment of IRA accounts. You should consult your tax adviser for the latest developments or for advice about how maintaining an IRA will affect your personal tax situation.

What tax information must I report to the IRS?

You must file Form 5329 with the IRS for each tax year where you made an excess contribution or take a premature withdrawal subject to the 10% penalty tax, or you withdraw less than the minimum amount required from your Traditional IRA. If your beneficiary fails to make required minimum withdrawals from your Traditional or Roth IRA, your beneficiary may be subject to an excise tax and be required to file Form 5329.

For Traditional IRAs, you must report each nondeductible contribution to the IRS by designating it a nondeductible contribution on your tax return using Form 8606. For any year in which you make a nondeductible contribution or take a withdrawal, you must include additional information on your tax return including (1) amount of your nondeductible contributions for that year; (2) amount of withdrawals from Traditional IRAs in that year; (3) amount by which your total nondeductible contributions for all the years exceeds the total amount of your distributions previously excluded from gross income; and (4) total value of all your Traditional IRAs at year end. If you fail to report any of this information, the IRS will assume that all your contributions were deductible. This will result in the taxation of the portion of your withdrawals that should be treated as a nontaxable return of your nondeductible contributions.

Charitable Distributions

The provision permitting the tax-free distributions every year directly from your IRA to certain charitable organizations for taxpayers who have obtained RMD age or older was permanently extended for distributions beginning in 2015. The annual tax-free IRA charitable distribution limit for 2023 is $100,000 and $105,000 for 2024 (amount to be indexed annually starting in 2024). For further detailed information, you may wish to obtain IRS Publication 590, Individual Retirement Arrangements, from the IRS.

Account Termination

You may terminate your Traditional or Roth IRA at any time by sending transfer or withdrawal instructions to:

AAFMAA Wealth Management & Trust LLC
639 Executive Place, Suite 200
Fayetteville, NC 28305

Any outstanding fees must be received prior to the termination of your account.

If your IRA is terminated before you reach age 59 ½, the 10% early withdrawal penalty may apply to the taxable amount you receive.

Disclosures

Financial Planning, Investment Management, and Trust Services provided by AAFMAA Wealth Management & Trust, a North Carolina Limited Liability Company wholly owned by AAFMAA. Physical address: 639 Executive Place, Suite 200, Fayetteville, NC 28305. Information provided by AAFMAA Wealth Management & Trust LLC is not intended to be tax or legal advice and we encourage you to seek guidance from your tax and legal advisors. Past performance does not guarantee future results. Investments are not FDIC or SIPC insured, are not deposits, nor are they insured by, issued by, or guaranteed by obligations of any government agency or any bank, and they involve risk including possible loss of principal.