Frequently Asked Questions

1) What are non-qualified and qualified accounts?

A qualified plan is simply one that is described in Section 401(a) of the Tax Code. The most common types of **qualified plans** are profit-sharing **plans** (including 401(k) **plans**), defined benefit **plans**, and money purchase pension **plans**. In general, your contributions are not taxed until you withdraw money from the **plan**. **In a non-qualified plan**, there are no deductions, but the principal is never taxed twice. Instead, the interest is taxed once withdrawn.

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2) What is an IRA, a Roth IRA, and a 401(k)? What is the difference?

IRA stands for Individual Retirement Account. It's a savings account that you can use to put away money for retirement, and potentially grow your funds through investment; there are tax breaks associated with an IRA.

- One of the basic differences between an IRA and a Roth IRA accounts is in when you pay taxes. With an IRA, you pay taxes at the time you take a distribution.
- In a Roth IRA, you pay taxes before contributing to the Roth.
- An IRA and a 401k are similar in many ways. Their biggest difference is in how much you can contribute.
- A 401(k) is a qualified employer-sponsored retirement plan into which eligible employees may make salary-deferral contributions on a post-tax and/or pretax basis. Earnings in a 401(k) plan accrue on a tax-deferred basis.

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3) What is an RMD?

A **required minimum distribution** is the amount that traditional, SEP, or SIMPLE IRA owners and qualified plan participants must begin withdrawing from their retirement accounts by April 1 following the year they reach age 70½.

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4) When can I take a distribution out of my Roth IRA?

Distributions may be withdrawn tax free after five years following the initial deposit. Exceptions are:

- Account holder is 59½.
- Money withdrawn is used for the first-time purchase of a principle residence (up to $10,000).
- Account holder has died or become disabled.

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5) When can I start taking my Social Security?

The earliest one can take Social Security is 62 years old.

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6) Can I save money in an account that is not an IRA or Roth? If so, what type of account?

Save in a regular non-retirement account.

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7) How much taxes will I have to pay during retirement?

It depends on the amount of assets you have. Every tax situation is different. For example, all income is taxed, Medicare is taxed, and Social Security is taxed. These numbers vary and JCN can run the numbers in a report to show you how much tax will be paid.

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8) How can I receive tax-free income?

Investing in a tax-free account.

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9) How much can I contribute to my Roth? IRA?

If you are currently working and under the age of 59½, you can contribute $5,500 annually. If you are over the age of 59½ you can contribute up to $6,500 annually.

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10) What is a Roth Conversion?

When you **convert** from a Traditional IRA to a **Roth**IRA, a process also known as creating a “backdoor” **Roth** IRA, you generally pay income tax on the contributions. The taxable amount that is **converted** is added to your income taxes and your regular income rate is applied to your total income.

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11) Is an annuity right for me? Should I get an annuity? How can I choose the best annuity for me?

In short, BUYER BEWARE!

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12) What is a cost basis?

Cost basis is the original value of an asset for tax purposes, usually the purchase price, adjusted for stock splits, dividends, and return of capital distributions. This value is used to determine the capital gain, which is equal to the difference between the asset's **cost basis** and the current market value.

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13) What is considered a distribution?

Roth conversions, withdrawing funds from an IRA, 401(k), etc.

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14) Am I taxed on rollovers?

No, you are not taxed on rollovers.

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15) What is an annuity?

A low-risk investment account over a set period of time. **traditional annuity fixed annuity variable annuity variable life**

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16) What does annuitization/annuitized mean?

Annuitization is the process of converting an annuity investment into a series of periodic income payments. Annuities may be **annuitized** for a specific period or for the life of the annuitant.

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17) What is Surrender Value? Is this the amount the client wants to be able to transfer to another account? Or are there additional fees applied?

Surrender value is the value of an account at the time the contract is terminated. If the account is not fully matured, the amount received/transferred is the surrender value less any penalties/fees incurred. **What is the amount the beneficiary will receive?** The beneficiary receives the death benefit at the time of death.

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18) How are beneficiaries listed in a specific account affected by what is in a trust? Will? Which has the final say upon death of the account owner?

The trust is more detailed. Wills and trusts both have to be done with lawyers. If there are no listed beneficiaries on an account, there will be a probationary period based on the will/trust.

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19) What is a SEP-IRA?

Self-employed IRA or small business IRA.

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20) If I own the business, is a SEP done directly from my business? Or is this if my employer does not offer a retirement plan?

Both. The owner is also an employee of the company with a specified salary/pay, so the “employer” funds the IRA. A SEP is a 401k for small businesses. **Or is this if my employer does not offer a retirement plan?** Both.

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21) How would I use pre-taxed money to fund?

Directly from your paycheck.

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22) Does face value change as death benefit changes?

The face value never changes. Taxes are taken directly from death benefit after premium payments.

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23) What are the maximum contributions to an IRA?

Under 50 years of age, $5,500/year. 50 years and over $6,500/year.

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24) What are the maximum contributions to a Roth IRA?

Under 50 years of age $5,500/year + employer match (if employer matches). 50 years and over $6,500/year + employer match (if employer matches).

- **Roth conversion:**Qualified account.
- Money put in is taxed up front. There is no maximum, BUT one has to be careful of falling into a

higher tax bracket as this is considered a distribution from one's IRA.
- Must wait 5 years to make a withdrawal from the date of FIRST contribution.
- There is no RMD.
- Roth conversion coming directly from IRA, whereas the maximums allowed come directly from paycheck.

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25) Check request form for TD Ameritrade: is this for non-qualified

Can be used for any account, but it is preferred to use an IRA Distribution Form for IRAs to have documentation of gross/net amount being removed from accounts along with any decision to withhold taxes.

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26) Client X has a distribution from his IRA every other month, but he is not 59½. He chooses to withhold 20% for federal and 2% for state taxes. Is the higher tax withholding because of the additional penalty? What is the penalty?

The taxes withheld are of the client's choosing, usually based on what is advised. There is a 10% penalty (IRS rule) in addition to the taxes withheld. Some 401ks make have a penalty higher than the 10% required by the IRS.

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27) What is 72T?

Rule 72(t) actually refers to code 72(t), section 2, which specifies exceptions to the early withdrawal tax that allow IRA owners to withdraw funds from their retirement account before age 59½ as long as the **SEPP**(**Substantially Equal Periodic Payment)**regulation is met. These payments must occur over the span of five years or until the owner reaches 59½, whichever period is **longer**.

- A substantially equal periodic payment plan allows individuals who have invested in an IRA or another qualified retirement plan to withdraw funds prior to the age of 59½ and avoid income tax and early withdrawal penalties. Typically, an individual who removes assets from a plan prior to age 59½ will face taxes on that withdrawal and a 10 percent penalty. With substantially equal periodic payments, the funds are placed into a SEPP plan that pays the individual annual distributions for five years or until he or she turns 59½, whichever comes later.
- Because the IRS requires individuals to continue the SEPP plan for a minimum of five years, this is not a solution for those who seek penalty-free short-term access to retirement funds. If you cancel the plan before the minimum holding period expires, you will have to pay the IRS all the penalties that were waived on amounts taken under the program, plus interest. SEPP plans are also permitted with money from employer-sponsored qualified plans, such as 401k's, but you cannot currently work for the employer that sponsored the plan.
