WHICH IRA IS RIGHT FOR YOU?

Learn All About Tax-Advantaged IRAs and Discover the Best Fit for You!

Your options are nearly endless when it comes to how to grow your retirement portfolio. Unlike a traditional savings account, an Individual Retirement Account (IRA) is one of several retirement savings vehicles that provide tax incentives, like tax-deferred or even tax-free growth, to encourage saving for retirement.

THE SUPERPOWER OF COMPOUNDING

The real beauty of saving and investing in a tax-advantaged savings vehicle like an IRA is the power of compounding interest. This means that while you're making regular contributions to grow your savings balance, the investments you choose have the potential to earn interest or grow in value.

The interest earned on your account balance today is added to your account and reinvested, so that the interest you earn tomorrow is based on your increased account balance. You're earning interest on your interest in addition to your contributions! This can add up to a significant amount the longer your contributions and investments have time to grow.

Taxable vs Tax-Deferred vs Tax-Free Scenario:

Tammy is turning 47 years old this year and wants to supplement her retirement savings. With her budget, she plans to save $450 per month ($6,000 per year) over the next 20 years until she retires at age 67. Tammy expects to remain in the 25% income tax bracket until she retires, when she anticipates her tax rate will decrease to 15%. What type of savings vehicle might be best for Tammy: taxable, tax-deferred or tax-free?

Here is what Tammy found when she ran a comparison calculation based on her situation. After 20 years of contributions (assuming a 7% interest rate), each type of account would produce the following account balance when she begins withdrawals at age 67 and the after-tax amount she could expect each month from that account balance for 20 years.

	Taxable Account	Tax-Deferred Traditional IRA	Tax-Free Roth IRA
Account balance at age 67	$188,519.89	$229,682.11	$229,692.11
After-tax monthly withdrawals until age 87	$1,328.27	$1,488.52	$1751.20

Run your own scenario with a customized report: https://www.stratatrust.com/calculators/

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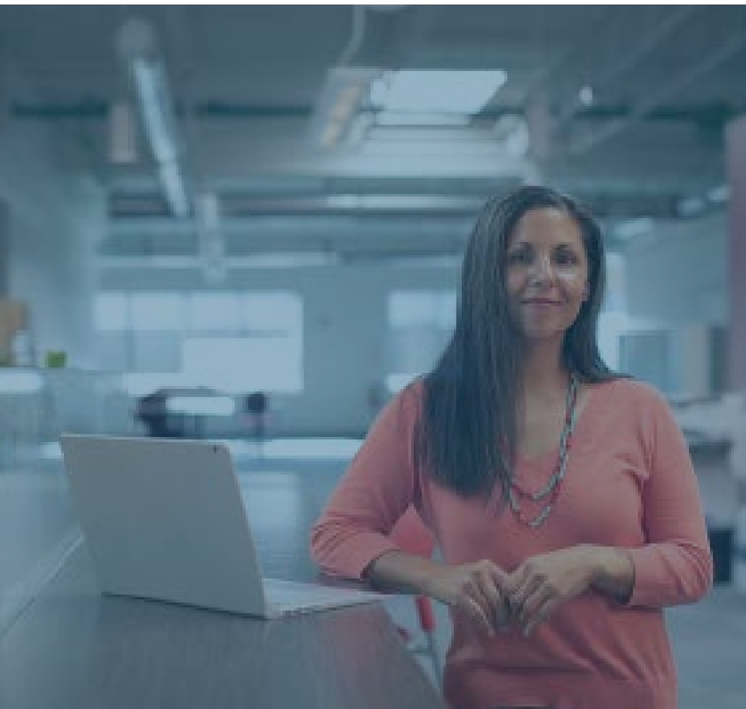
IRAs FOR INDIVIDUALS

Two types of IRAs are designed to help you save for retirement, without the involvement of an employer: a Traditional IRA and a Roth IRA. Both options provide tax-deferred investment earnings. But the tax benefits and eligibility requirements are quite different for Traditional and Roth IRAs.



You may find that one type of IRA is more beneficial to you now, depending on your income and tax status, but in future years you may choose a different type of IRA. Some investors save in both types of IRAs to diversify the tax character of their retirement savings and take advantage of the different benefits each type of IRA has to offer.

Traditional IRAs

The most common IRA is the Traditional IRA. In 2019 and prior years, in addition to having earned income investors needed to be younger than age 70½. The Secure Act 2.0, officially signed on December 29, 2022, repealed the contribution eligibility age restriction. Contributions are optional and can vary in both amount and timing from year-to-year. For 2024, you may contribute up to $7,000. If you are age 50 or over, you may make an additional "catch-up" contribution of $1,000. Contributions to all Traditional and Roth IRAs are aggregated when calculating the annual contribution limit.

Tax Deduction

One of the main incentives for making Traditional IRA contributions is the option to take a tax deduction for your contributions. A tax deduction will potentially lower the amount of tax you owe. If you think your tax rate now is higher than it will be when you retire, a Traditional IRA may be a good option for you. By taking a deduction now, you will avoid paying taxes on your retirement savings when your tax rate is high. Instead, you will pay taxes on your savings (contributions and earnings) as you take withdrawals from the IRA, presumably after you have retired and are in a lower tax bracket.

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Traditional IRA 2024 Income Limit for Deduction	
Single	Under $77,000
Married	Under $123,000

You may take a tax deduction for your IRA contributions unless you (or your spouse) are participating in an employer's retirement plan, such as a 401(k) plan, SEP, or SIMPLE IRA plan. If you are participating in an employer plan, your IRA contribution will be deductible so long as your modified adjusted gross income does not exceed certain limits. These limits are adjusted periodically based on the cost-of-living. If you don't qualify for a deduction, you may make a nondeductible contribution, which will be tax-free when you take it out of the IRA.

Savings Consolidation

The ability to consolidate your retirement savings into one tax-advantaged account is another important benefit of saving in an IRA. You can roll assets into your Traditional IRA from other Traditional IRAs as well as from 401(k) plans, 403(b) plans, governmental 457(b) plans, and SIMPLE IRAs (after a two-year holding period). Benefits of consolidating your retirement savings into a single account include:

- Having only one investment portfolio to manage
- Keeping track of only one account access portal and one set of login credentials
- Possibly reducing overall investment and account management fees

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- Simplifying and coordinating your retirement income planning and payment strategy
- Streamlining your finances for your beneficiaries if you become unable to manage your investments or die before depleting your retirement savings

Considerations

Although the flexibility to take a distribution at any time is another prized benefit of IRAs, the money you take out of a Traditional IRA generally must be included in your taxable income for the year. In addition, a 10% early distribution tax generally applies to taxable distributions taken prior to age 59½. Then, once you turn age 72 (73 if you reach age 72 after Dec. 31, 2022), you will be required to take a minimum amount, or a "required minimum distribution" (RMD), out of your IRA each year until the account balance is depleted.

Common Candidates for Traditional IRAs Are Individuals Who:

- ◊ Are eligible to take a tax deduction for their contributions.
- ◊ Believe they will be in a lower tax bracket in retirement.
- ◊ Are not eligible to contribute to a Roth IRA.
- ◊ Want to roll over assets from another retirement account and continue deferring taxation of their retirement savings and investment earnings.

Roth IRAs

A Roth IRA has some important differences when compared to Traditional IRAs:

- Funded with after-tax contributions—no tax deduction available.
- Mandatory withdrawal or distributions at any age is not required.
- Income limit applies—you must have income under a set limit to be eligible to contribute to a Roth IRA.

Tax-free Distributions

Contributing to a Roth IRA will not reduce your taxable income in the years you make contributions. Instead, the primary tax benefit occurs when you take withdrawals from your Roth IRA. Here's how it works: You can withdraw the money you contributed at any time tax and penalty-free because you paid the tax on those assets when you funded the Roth IRA. If you take a "qualified" distribution, the tax-deferred investment earnings in your Roth IRA will also be tax-free. This could be a significant amount of tax-free money. To take a qualified distribution, you must:

- Have had a Roth IRA for at least five years, and
- Have a qualifying event: be aged 59 ½ or older, disabled, deceased, or taking a first-time home buyer distribution.

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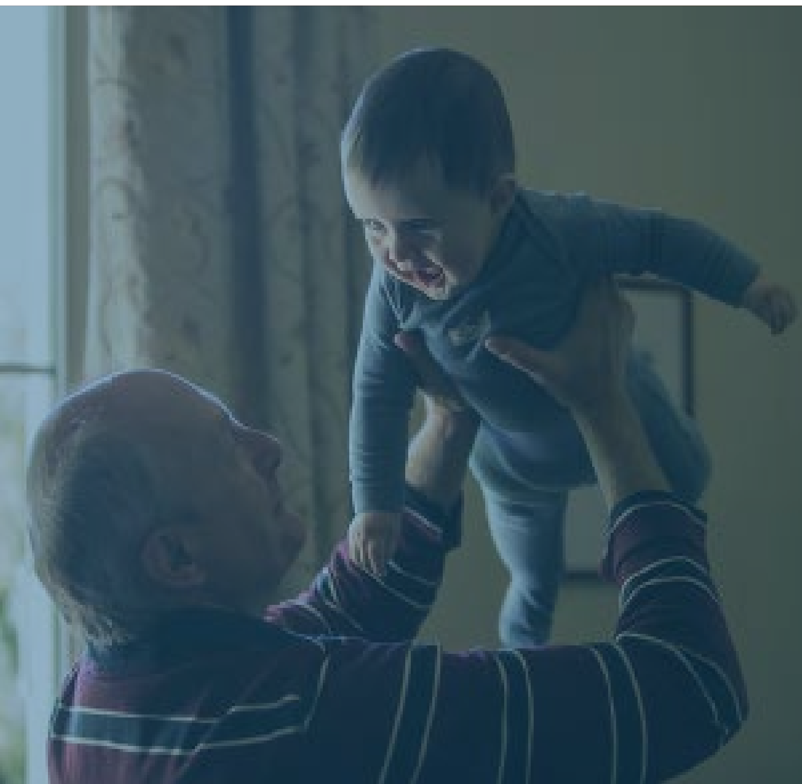
If you are in a low tax bracket now and think you will be paying tax at a higher rate in retirement, a Roth IRA may be appealing— especially if you anticipate significant growth in the value of your investments.

No Mandatory Distributions

Roth IRAs are not subject to the age 72 RMD rules while you are alive. You can allow your Roth IRA assets to grow without having to draw down the balance each year after reaching age 72. You may pass the assets on to your IRA beneficiaries tax-free. This makes Roth IRAs a popular vehicle in retirement income and estate planning strategies.



Roth IRA 2024 Income Limit for Eligibility	
Single	Under $146,000
Married	Under $230,000

Rollover Options

If you have a designated Roth account in a 401(k), 403(b), or 457(b) plan, you may roll it over tax-free to a Roth IRA. You may also roll over your pre-tax money from an employer plan or a Traditional or SIMPLE IRA (after a two-year holding period) to a Roth IRA. This transaction "converts" pre-tax retirement savings to after-tax Roth savings. The conversion amount is included in taxable income in the year it is rolled over. Once the assets are in the Roth IRA, they may be distributed tax-free.

Common Candidates for Roth IRAs Are Individuals Who:

- ◊ Want to pay tax at today's rates (vs. future unknown rates).
- ◊ May need access to tax and penalty-free assets before retirement.
- ◊ Have significant time to accumulate tax-free investment earnings.
- ◊ Would like to pass tax-free retirement assets to heirs.

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Traditional and Roth IRA Comparison

	Traditional IRA	Roth IRA
Eligibility to Contribute	Under age 72* and earned income	Earned income within limits
Contribution Limit (for 2024)	$7,000 + $1,000 catch-up contribution if age 50 or older	$7,000 + $1,000 catch-up contribution if age 50 or older
Contribution Taxation	Deductible (if participating in an employer plan, must have income within limits)	Never deductible
Distribution Taxation	Taxable, unless nondeductible contributions or after-tax rollovers from employer plans; 10% early distribution tax applies to taxable savings & earnings	Contributions always tax-free, earnings tax-free if qualified distribution; 10% early distribution tax applies only to taxable earnings (non-qualified distributions)
Distribution Timing	Withdrawals permitted anytime; RMD rules apply beginning at age 72*	Withdrawals permitted anytime; RMD rules apply only after the IRA owner's death

*The Secure Act 2.0 considerations for age eligibility are 72, however if an investor reached the age of 72 after Dec. 31, 2022, then RMD requirements begin at age 73.

You Do Not Have to Pick Just One

The major difference between Traditional and Roth IRAs is the timing of the tax benefit. With a Traditional IRA, you delay paying taxes on your savings until you withdraw funds in retirement. With a Roth IRA, you pay the taxes up front and enjoy tax-free distributions in retirement. The decision as to which IRA is right for you comes down to when you think it would be most beneficial to pay taxes—but you do not have to pick just one. You can save in both types of IRAs if you meet the eligibility requirements. Just as you diversify your investment portfolio, you may want to consider diversifying the tax status of your IRA savings.

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IRAs FOR BUSINESS OWNERS

As a business owner, you may sponsor an IRA-based savings plan to help you and your employees save for retirement. The two most popular are Simplified Employee Pension (SEP) and Savings Incentive Match (SIMPLE). Contributions are tax-deductible by the business, and small businesses may qualify for a tax credit for start-up costs. IRA-based retirement plans are easy to administer and are generally less expensive than other types of retirement plans, such as a 401(k) plan. Other advantages that IRA plans have over other types of employer plans include:

- No annual plan return (e.g., Form 5500)
- No non-discrimination testing
- No fiduciary risk for investments
- No ERISA bonding requirements

Simplified Employee Pension (SEP) Plan

The SEP plan is the easiest of all retirement plans for self-employed and small business owners to establish and operate. The employer adopts the plan and then makes contributions to a separate IRA for each eligible employee, if any, including the business owner.

Employer Responsibilities

The employer has few administrative requirements and costs with a SEP plan. The employer's responsibilities are limited to:

- Signing a SEP plan document to establish the plan.
- Choosing employee eligibility requirements and a formula for allocating contributions.
- Depositing contributions into employees' Traditional IRAs.
- Notifying employees when a SEP contribution is made.

Contributions

Under a SEP plan, employers may choose whether to contribute and how much to contribute each year. The annual contribution limit is 25% of an employee's compensation or $69,000 (for 2024), whichever amount is smaller. Although employees are not allowed to make additional SEP contributions, they may make their own annual Traditional or Roth IRA contributions, if they meet the eligibility requirements for IRA contributions.

Distributions & Taxation

Once SEP plan assets are deposited into the IRA, the Traditional IRA's rules apply, including the Traditional IRA distribution and taxation rules.

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Savings Incentive Match (SIMPLE) IRA Plans

With a SIMPLE IRA plan, employers can provide a salary deferral arrangement similar to a 401(k) plan for their employees, but with far simpler administrative requirements. SIMPLE IRA plans are only available to small employers with no more than 100 employees who earned more than $5,000 in the preceding year. SIMPLE IRA plans have lower contribution limits than 401(k) plans and require employer contributions.

Employer Responsibilities

As with a SEP plan, a SIMPLE IRA plan is established when the employer signs a plan document with a financial institution. Employee eligibility requirements and the employer contribution must be selected at this time. The employer also must make sure that employee deferrals and employer contributions are deposited promptly and that the proper notices are provided to employees each year.

Contributions

An employee who chooses to participate in a SIMPLE IRA plan must establish a SIMPLE IRA to receive deferrals and employer contributions and must complete a salary reduction agreement specifying the portion of their compensation they wish to contribute to the plan. For 2024, employees may defer up to $16,000, as well as an additional $3,500 catch-up contribution starting in the year the employee turns age 50.

Employer Contributions may be either a:

- Matching contribution – dollar-for-dollar equal to 1% to 3% of compensation for employees who are deferring into their SIMPLE IRA, or
- Nonelective contribution – equal to 2% of compensation, for all eligible employees whether they defer or not.

Distributions & Taxation

The distribution and taxation rules for SIMPLE IRAs are similar to those for Traditional IRAs, except SIMPLE IRA owners generally must wait for two years from the date of the initial contribution under the plan to consolidate the SIMPLE IRA assets with a Traditional IRA or employer plan. The 10% early distribution tax that applies to taxable distributions prior to age 59½ increases to 25% for the first two years of an employee's participation in the SIMPLE IRA plan.

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SEP and SIMPLE IRA Plan Comparison

	SEP PLAN	SIMPLE IRA PLAN
Employer Eligibility	Any Employer	Employer with 100 or fewer employees; does not maintain another plan
Maximum Employee Eligibility Requirements	Age 21, employed by the employer for 3 of the last 5 years & compensation of $750 for 2024	Earned income of at least $5,000 in any prior 2 years & expected to earn at least $5,000 in current year
Contributors to the Plan	Employer only	Employee & employer
Contribution Limits (for 2024)	25% of employee's compensation up to $69,000; employer can vary contribution amount each year	Employee can defer up to $16,000 (+ $3,500 if age 50 or older); employer must make up to 3% matching contribution or 2% nonelective contribution
Distribution Taxation	Subject to income taxes & 10% early distribution tax	Subject to income taxes & 10% early distribution tax (25% in first 2 years)
Distribution Timing	Withdrawals permitted anytime; RMD rules apply	Withdrawals permitted anytime; RMD rules apply

You Can Only Pick One

Although SEP and SIMPLE IRA plans are easy to establish and maintain, each type of plan has different features and employers should evaluate which plan is the best fit for their retirement savings and business needs. An employer who maintains a SIMPLE IRA plan cannot maintain any other plan during the same calendar year.

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SELF-DIRECTED IRAs

A Self-Directed IRA (SDIRA) is a type of IRA (Traditional, Roth, SIMPLE or SEP) that can hold a variety of alternative investments normally prohibited from regular IRAs. The IRA account is held by a custodian, like STRATA, or trustee but it is directly managed by the account holder - you!

More Options, More Control

In general, the main difference between an IRA and an SIDRA is what investment options are available to you. Regular IRAs are limited to common securities like stocks, bonds, CDs, and mutual or exchange-traded funds. SDIRAs allow investors a wide array of traditional, nontraditional and alternative investment options outside of the stock market. Leveraging an SDIRA allows you the flexibility to build a powerful investment strategy that may offset the volatility of traditional markets.

Alternative Investment Custody

SDIRA custodians aren't allowed to give financial advice (remember, the account is self-directed) - which means the account holder is responsible for due diligence, managing and directing of their investments. Each custodian's investment offering is different as well as their experience with the custody of alternative investments and their regulatory expertise.

STRATA Investment Options — Just to Name a Few...

- Real Estate - Raw land, commercial property, apartment buildings, warehouses
- Crowdfunding - Venture capital, retail shops, car washes
- Private Debt - Corporate debt, convertible notes, consumer debt, bonds
- Private Equity - Medical devices, software, bank stock, patents, restaurants, wineries
- Public Offerings - Traditional stocks, bonds, CD's, and mutual or exchange-traded funds
- Structural Settlements
- Gold & Precious Metals

Which IRA is Right for You?

While all IRAs offer a tax-advantaged way to save for retirement, each type — Traditional, Roth, SEP, or SIMPLE — offers distinct differences when it comes to taxation, required distributions and payouts, penalty structures and exceptions, age requirements, and more.

Connect with your financial advisor or contact STRATA Trust to learn more about directing your own investments through a SDIRA.

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ABOUT US

Carve your own path to retirement.™

7901 Woodway Drive
Waco, TX 76712

866.461.9284

BusDev@StrataTrust.com
www.StrataTrust.com

STRATA Trust Company is a premier national custodian for alternative assets and non-exchange traded investments in self-directed IRAs. STRATA has been helping investors use their retirement account funds to invest since 2008.

With offices in Waco and Austin, Texas, our team's vast experience in handling the details and complexities that alternative investment transactions require is unrivaled. Our seasoned team's experience in the custody of alternative assets spans over 350 years. With a well-established reputation for honesty and integrity, STRATA is committed to delivering responsive, flexible and innovative solutions.

At STRATA, we work to ensure that the highest standards for safety and soundness are met. As a subsidiary of Horizon Bank, SSB, STRATA is a Texas-chartered trust company regulated by the Texas Department of Banking, which has long set the benchmark among state banking regulators. Strict controls are in place to ensure the safety of uninvested cash, and independent auditors are retained to conduct regular audits of our operations.

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