Preparing for Your Retirement: An IRA Review

How much of your earning power will be available for your use when you retire? What will happen to your standard of living when your income ceases at retirement? Are you currently saving for retirement on a tax-advantaged basis?

DECISION 1 FINANCIAL

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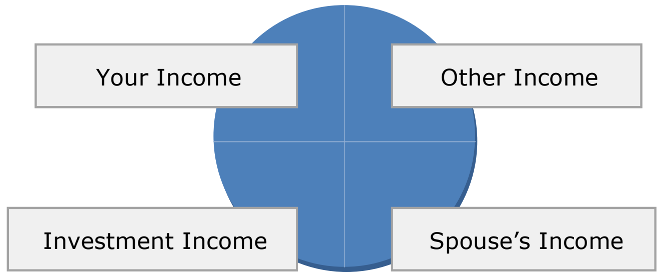
Your Earning Power

Your ability to earn income may be one of your most valuable financial resources.

Consider this example: A 30-year-old couple earning an average family income of $100,000 annually over the next 35 years could earn approximately $3.5 million in gross income by age 65, assuming their income remains unchanged.

Earning Power:



How Much Will You Earn in a Lifetime?

Years to Age 65	Your Future Earning Power If Your Family Income Averages:			
	$50,000	$100,000	$250,000	$500,000
40	$2,000,000	$4,000,000	$10,000,000	$20,000,000
	1,750,000	3,500,000	8,750,000	17,500,000
30	1,500,000	3,000,000	7,500,000	15,000,000
	1,250,000	2,500,000	6,250,000	12,500,000
20	1,000,000	2,000,000	5,000,000	10,000,000
	750,000	1,500,000	3,750,000	7,500,000
10	500,000	1,000,000	2,500,000	5,000,000
	250,000	500,000	1,250,000	2,500,000

How much of your earning power do you pay in taxes? What will happen to your standard of living when your income ceases at retirement?

Sources of Retirement Income

When you retire and your earning power ceases, you will have to depend on three primary sources for your retirement income:

Social Security

According to the Social Security Administration, the average retired worker in 2026 receives an estimated $2,071 monthly benefit, about 40% of average pre-retirement income. As pre-retirement income increases, however, the percentage replaced by Social Security declines.

For illustrative purposes only. Calculations assume the stated annual family income remains constant through age 65 and do not account for taxes, inflation, changes in income, periods of unemployment, investment returns or other factors. Actual results will vary. Not an example of any actual client situations, nor is it indicative of actual investment results.

Employer-Sponsored Plans and IRAs

You may be eligible to participate in a retirement plan established by your employer and receive pension income at your retirement. You may also be able to contribute to an individual retirement account (IRA) to supplement Social Security and pension benefits.

Home Ownership and Personal Retirement Savings

For many people, there is a gap between the retirement income they can expect from Social Security and employer-sponsored plans/IRAs and their retirement income objectives. Home equity and personal retirement savings, including bank and brokerage accounts and certain insurance and annuity products, may be among the resources considered when addressing retirement income needs.

If sufficient retirement income is not available, will you defer your retirement age, or will you choose to reduce your standard of living?

Important Facts about Social Security Retirement Benefits

The Social Security Normal Retirement Age, age 66 for those people born between 1943 and 1954, is gradually increasing to age 67 for persons born after 1954. Full retirement age is 67 for individuals born in 1960 or later.

Early retirement results in a permanent reduction in the Social Security retirement benefit. For example, the Social Security retirement benefit of a worker born in 1960 who has a Normal Retirement Age of 67 and retires early at age 62 will be reduced by 30%.

According to the Social Security Administration:

> The **maximum** Social Security retirement benefit for a worker retiring at full retirement age in 2026 is $4,152 monthly.
>
> The **average** Social Security benefit for all retired workers in 2026 is estimated at $2,071.

The Social Security spousal retirement benefit is limited to a maximum of 50% of the retired worker's benefit. The spousal retirement benefit is reduced if the worker retires before his or her normal retirement age.

How much do you want to rely on a source of retirement income over which you have no control? Consider this quote from a *Time* magazine article titled "Social Insecurity":

"For government to pay pensions to the advancing tide of baby boomers will almost certainly require stunning benefit reductions or huge tax increases. Most likely both. After years of fiscal and political fecklessness, an explosive conclusion."

Question: When was this article published?

Answer: March 12, 1995, although the same statement could easily apply today, in the absence of any reform to the Social Security system.

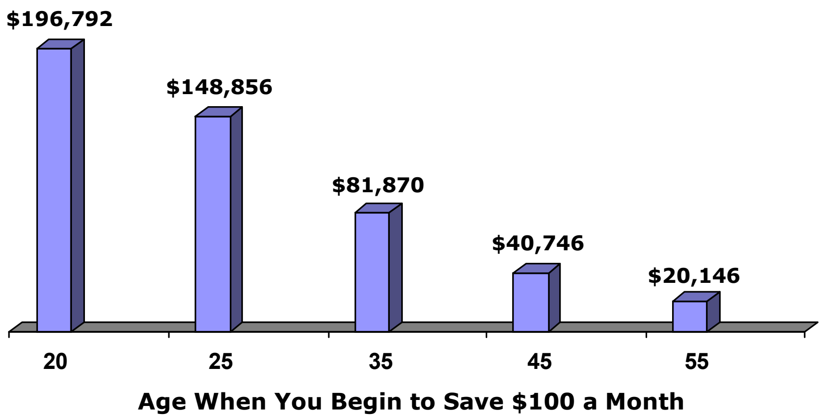
The Potential Impact of Starting to Save Earlier

"The eighth wonder of the world is compound interest."

-- Albert Einstein

Delaying retirement savings can keep you from realizing your retirement dreams!

If $100 a month is saved, what will the savings be worth at age 65, assuming a hypothetical 5% annual rate of return*?



** This is a hypothetical illustration only and is not indicative of any particular investment or investment performance. It does not reflect the fees and expenses associated with any particular investment, which would reduce the performance shown in this hypothetical illustration if they were included. In addition, rates of return will vary over time, particularly for long-term investments.*

A Potential Solution Using an IRA

Those who qualify for a traditional **tax-deductible IRA** can use money that would otherwise be paid in taxes to establish a retirement fund that accumulates tax deferred. Taxes, however, must be paid as distributions are received from a tax-deductible IRA. A second alternative for those who qualify is the **Roth IRA**. While contributions to a Roth IRA are not tax deductible, the retirement fund accumulates tax deferred and distributions are received free of income tax.

The tax treatment of Traditional and Roth IRAs differs from that of taxable savings and investment accounts and may affect the amount ultimately available for retirement.

Traditional IRA vs. Roth IRA… A 2026 Comparison

Eligible individuals can contribute to a tax-deductible traditional IRA, to a non-deductible Roth IRA or to a combination of the two. However, no more than a combined total of $7,500/$8,600 if age 50 or older in 2026 (or 100% of earned income if less) may be contributed to these accounts each year.

Individuals who are not eligible for deductible contributions to a traditional IRA or to make contributions to a Roth IRA may still make non-deductible contributions to a traditional IRA and receive the benefits of tax-deferred growth.

Which type of IRA is best for you depends on your situation, needs and objectives. The comparison that follows is designed to help you make an informed decision.

	Traditional IRA (tax deductible)	Roth IRA	Traditional IRA (non-deductible)
Deductible Contributions	Yes	No	No(1)
Limit on Contributions	Yes (lesser of $7,500; $8,600 if age 50 or older; or 100% of earned income)	Yes (lesser of $7,500; $8,600 if age 50 or older; or 100% of earned income)	Yes (lesser of $7,500; $8,600 if age 50 or older; or 100% of earned income)
Tax-Deferred Growth	Yes	Yes	Yes
Tax-Free Distributions	No (fully taxable)	Yes (if qualified distributions)	No (partially taxable)
Age Limits	No	No	No
Income Limits	No	Yes (contribution phased out if adjusted gross income exceeds specified limits)	No
Minimum Distribution Requirement	Yes	No	Yes
Bankruptcy Protection	***Original Owner***: Yes, up to $1,711,975 for all IRAs ***Inherited IRA***: No	***Original Owner***: Yes, up to $1,711,975 for all IRAs ***Inherited IRA***: No	***Original Owner***: Yes, up to $1,711,975 for all IRAs ***Inherited IRA***: No

(1) Traditional IRA contributions are fully deductible from income unless an individual and/or spouse are active participants in an employer-sponsored retirement plan, including a tax-deferred annuity (TDA). In that event, the IRA deduction is gradually phased out as adjusted gross income exceeds specified limits, in which case an IRA contribution may be partially deductible or non-deductible.

Which Is Better…the Traditional IRA or the Roth IRA?

Depending on your needs and objectives, the tax-free distribution feature of the Roth IRA may produce different outcomes when compared to a regular IRA, which may provide for tax-deductible contributions, but taxable distributions. In choosing between a regular IRA and a Roth IRA, you may find it helpful to evaluate both the accumulation period and the distribution period results of the respective plans.

Traditional vs. Roth IRA: Accumulation Period

$7,500 Annual Contribution Each Year for 20 Years
Values in 20 Years (1)
8% Hypothetical Annual Rate of Return | 24% Income Tax Bracket

	Total IRA Value	Deductible IRA Tax Savings (2)	Total Cash Available
Traditional IRA (deductible contributions)	$405,629	$97,351	$502,980
Traditional IRA (non-deductible contributions)	$405,629	-----	$405,629
Roth IRA (non-deductible contributions)	$405,629	-----	$405,629

Traditional vs. Roth IRA: Distribution Period

Total Cash Available Distributed in Equal Amounts Over 20 Years (3)
8% Hypothetical Annual Rate of Return | 24% Income Tax Bracket

	Total Cash Available	Annual After-Tax Distribution	Total Distributions
Traditional IRA (deductible contributions; fully taxable IRA distributions)	$502,980	$36,051	$721,020
Traditional IRA (non-deductible contributions; partially taxable distributions)	$405,629	$32,468	$649,360
Roth IRA (non-deductible contributions; tax-free distributions)	$405,629	$38,254	$765,080

(1) This is a hypothetical illustration only and is not indicative of any particular investment or performance. It does not reflect the fees and expenses associated with any particular investment, which would reduce the performance shown in this hypothetical illustration if they were included. In addition, rates of return will vary over time, particularly for longer-term investments. Depending on the performance of your IRA investment, it is also possible to lose money.

(1) Assumes that the $1,800 annual tax savings on the $7,500 traditional deductible IRA contribution (24% tax bracket) are invested in a taxable account.

(2) Assumes that principal and interest are distributed in equal annual installments over 20 years.

Understanding Traditional IRAs

Eligibility:

Single Person: A single person who has earned income may establish and contribute up to the lesser of $7,500 or 100% of earned income to an IRA.

Married Couple: Up to $7,500 can be contributed to an IRA for each spouse, even if one spouse has no earned income, provided that the combined compensation of both spouses is at least equal to the combined IRA contribution (maximum of $15,000).

Older Workers: Workers who are age 50 or older may contribute an additional $1,100 to an IRA in 2026, for a total of $8,600, provided that earned income is at least equal to the IRA contribution.

Deductibility:

IRA contributions are fully deducted from income, **unless** you and your spouse are active participants in an employer-sponsored retirement plan, including a tax-deferred annuity (TDA). In that event, the IRA deduction is gradually phased out as follows:

Adjusted Gross Income	Maximum IRA Deductions (2026 Tax Year)				
	Joint Taxpayers			Single Taxpayers	
	One IRA	Two IRAs	Age 50 or Older	One IRA	Age 50 or Older
$81,000 & under	$7,500	$15,000	$8,600	$7,500	$8,600
$86,000	$7,500	$15,000	$8,600	$3,750	$4,300
$91,000	$7,500	$15,000	$8,600	$ 0	$ 0
$129,000	$7,000	$15,000	$8,600	$ 0	$ 0
$139,000	$3,750	$7,500	$4,300	$ 0	$ 0
$149,000 & above	$ 0	$ 0	$ 0	$ 0	$ 0

The spouse of an active participant in an employer-sponsored retirement plan who is not covered by his or her own plan can make fully-deductible IRA contributions, if the couple's adjusted gross income is below $242,000 in 2026 and partially-deductible IRA contributions if between $242,000 and $252,000 in 2026.

Contribution Deadline:

An IRA can be established and contributions made between January 1 of the current tax year and the date the income tax return for the current year is filed (no later than April 15th of the following year).

Traditional IRA Taxation

During Life:

Contributions (2026): Deductible up to $7,500 (up to $15,000 for a married couple; additional $1,100 contribution available to workers age 50 and older in 2026) unless the individual is an active participant in an employer-sponsored qualified retirement plan, in which case the tax deduction is gradually phased out. In 2026, this phase-out begins at adjusted gross incomes in excess of $129,000 for married couples filing jointly ($81,000 for single taxpayers) and ends at $149,000 for married couples ($91,000 for single taxpayers), at which point there is no IRA deduction.

The spouse of an active participant in an employer-sponsored retirement plan who is not covered by his or her own plan can make fully-deductible IRA contributions, if the couple's adjusted gross income is below $242,000 and partially-deductible IRA contributions if between $242,000 and $252,000 in 2026.

Growth: The earnings on IRA contributions (whether deductible or non-deductible) accumulate tax-free until distributed.

Distributions: IRA distributions are taxed under the rules of IRC Sec. 72. This means that the taxpayer is entitled to recover any non-deductible IRA contributions tax-free when distributions begin. Other than this tax-free return of the "investment in the contract," all IRA distributions are includable in gross income in the year received. In addition:

- **Premature distributions** made prior to age 59-1/2 are subject to a 10% excise or "penalty" tax in addition to the regular income tax on the amount of the distribution. Exceptions to the penalty tax include payments made on account of death, disability, to cover certain medical expenses, to pay qualified higher education expenses, for the purchase of a first home ($10,000 lifetime limit), at the birth or adoption of a baby ($5,000 maximum), emergency personal expenses (up to $1,000 annually), domestic abuse victims ($10,000 maximum) or in a series of substantially equal periodic payments over the taxpayer's life expectancy.
- **Required minimum distributions** from an IRA must begin by April 1 of the year after the year in which the taxpayer attains his/her required minimum age, or a 25% excise tax is levied on the difference between what was paid out and what should have been paid out under IRA minimum distribution rules. Required minimum starting ages depend on the taxpayer's date of birth:
    - born **after June 30, 1949 and before January 1, 1951**, required minimum distributions began no later than April 1 of the year following the year in which the taxpayer reached age 72.
    - born **on or after January 1, 1951**, required minimum distributions begin no later than April 1 of the year following the year in which the taxpayer reaches age 73.
    - born **on or after January 1, 1960**, required minimum distributions begin no later than April 1 of the year following the year in which the taxpayer reaches age 75.

At Death:

Estate Taxation: The value of the IRA is included in the gross estate of the deceased owner.

Income Taxation: Traditional IRA distributions received by a beneficiary after the traditional IRA owner's death are taxed in the same manner as if received by the owner.

Understanding Roth IRAs

Eligibility:

Single taxpayers with an annual income of up to $153,000 or married couples filing jointly with an annual income of up to $242,000 are each eligible to contribute up to a maximum of $7,000 annually to a Roth IRA in 2026. Workers who are age 50 or older may contribute an additional $1,100 to a Roth IRA in 2026, for a total of $8,600.

The maximum contribution is gradually reduced to zero in 2026 at income levels between $153,000 and $168,000 for single taxpayers and between $242,000 and $252,000 for joint filers.

Contributions to a Roth IRA can be made so long as the taxpayer has earned income.

Deductibility:

Contributions to a Roth IRA are non-deductible. Instead, the tax advantages of a Roth IRA are "backloaded." Earnings on Roth IRA contributions accumulate without tax and distributions may be received tax free.

Qualified Distributions:

Qualified distributions from a Roth IRA are not included in gross income and are not subject to the additional 10% penalty tax for premature distributions. To be a tax-free qualified distribution:

- The distribution must occur more than five years after the individual first contributed to the Roth IRA; and
- The individual must be at least 59-1/2 years old, disabled, deceased or the funds must be used to purchase a first home ($10,000 lifetime limit).

Converting from a Traditional IRA to a Roth IRA:

Income taxes must be paid on the amount that is converted from a traditional IRA to a Roth IRA, but there is no premature distribution penalty tax.

Roth IRA Taxation

During Life:

Contributions (2026): Not deductible.

Growth: The earnings on Roth IRA contributions accumulate tax-free until distributed.

Distributions: Qualified distributions from a Roth IRA are received free of income tax and are not subject to the 10% premature withdrawal penalty tax. Roth IRA distributions that do not meet the qualified distribution requirements will be included in income to the extent that the distribution represents earnings on Roth IRA contributions and may be subject to a 10% premature withdrawal penalty tax.

Reason for Distribution:	Distribution Made Within 5 Years of First Roth IRA Contribution		Distribution Made More Than 5 Years After First Roth IRA Contribution	
	Earnings Taxable	Subject to 10% Penalty	Earnings Taxable	Subject to 10% Penalty
On or after age 59-1/2	Yes	No	No	No
Before age 59-1/2 (exceptions follow):	Yes	Yes	Yes	Yes
■ Death	Yes	No	No	No
■ Disability	Yes	No	No	No
■ First-time homebuyer ($10,000 limit)	Yes	No	No	No
■ Substantially equal periodic payments	Yes	No	Yes	No
■ Medical expenses above 7.5% of adjusted gross income	Yes	No	Yes	No
■ Health insurance premiums paid by the unemployed	Yes	No	Yes	No
■ Higher education expenses	Yes	No	Yes	No
■ At the birth or adoption of a baby ($5,000 maximum)	Yes	No	Yes	No

There is no requirement that distributions from a Roth IRA begin by age 72.

At Death:

Estate Taxation: The value of a Roth IRA is included in the gross estate of the deceased owner.

Income Taxation: Roth IRA distributions received by a beneficiary after the Roth IRA owner's death are taxed in the same manner as if received by the owner.

IRA-to-IRA Rollovers

Can Funds Be Transferred Between Traditional IRAs and Between Roth IRAs?

Yes, funds can be moved from a **traditional IRA to another traditional IRA** or from a **Roth IRA to another Roth IRA** without any taxes or penalty, assuming certain requirements are met:

- The trustee of the existing IRA transfers the funds directly to the trustee of the receiving IRA (**a trustee to trustee transfer**); can be done as often as you want; **or**
- The funds in the existing IRA are distributed to you and you roll them over to the receiving IRA within 60 days of receiving the distribution (**a rollover**); can only be done once every 365 days.

Can Funds Be Transferred From a Roth IRA to a Traditional IRA?

No, funds cannot be moved from a **Roth IRA to a traditional IRA**.

Can Funds Be Transferred From a Traditional IRA to a Roth IRA?

Yes. After careful review, you may decide that a Roth IRA is a better retirement savings option for you than a traditional IRA. In this event, if you already have funds in a traditional IRA, you may want to consider moving those funds into a Roth IRA.

Advantages:

- Qualified distributions from a Roth IRA are received free of income tax.
- If non-qualified distributions are taken, the portion of the distribution represented by traditional IRA contributions is not taxable.
- There is no minimum age by which you must begin receiving distributions from a Roth IRA.
- The premature distribution penalty tax does not apply to amounts converted or rolled over from a traditional IRA to a Roth IRA.
- Qualified distributions from a Roth IRA are not included in determining the taxable portion of any Social Security benefits being received.

Disadvantages:

- The amount that is converted or rolled over to the Roth IRA is subject to federal income tax in the year of the conversion or rollover, to the extent that the funds consist of earnings and tax-deductible contributions to the traditional IRA.
- In the year of the conversion or rollover, this taxable income can serve to increase the taxable portion of any Social Security benefits being received.
- The premature distribution penalty tax applies to any converted or rolled over amounts distributed from the Roth IRA during the five-year period following the conversion or rollover.

You should seek professional tax advice before converting or rolling over funds from a traditional IRA to a Roth IRA in order to avoid unforeseen and/or negative tax and, possibly, creditor protection consequences.

Important Information

The information, general principles and conclusions presented in this report are subject to local, state and federal laws and regulations, court cases and any revisions of same. While every care has been taken in the preparation of this report, VSA, L.P. is not engaged in providing legal, accounting, financial or other professional services. This report should not be used as a substitute for the professional advice of an attorney, accountant, or other qualified professional.

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