Saving for Retirement: IRAs Are an Option

Setting aside money in an Individual Retirement Account is one of the most accessible ways to build retirement savings, and the tax advantages can be significant depending on which type of IRA you choose.

2026 Contribution Limits for Traditional and Roth IRAs:

For 2026, contributions to traditional and Roth IRAs are limited to the lesser of taxable compensation or $7,500 for those under age 50, and $8,600 for those age 50 or older by year end. This limit is combined across both traditional and Roth IRA contributions — for example, a $1,000 contribution to a Roth IRA reduces the amount that can be contributed to a traditional IRA by $1,000. Employer contributions under a SEP or SIMPLE IRA plan do not count against this combined limit.

Traditional IRA:

Any individual with taxable compensation can open a traditional IRA, even if already covered by an employer-sponsored retirement plan. Contributions may be fully or partially deductible depending on income and whether the taxpayer is covered by a workplace plan, but the deductible amount phases out above certain income thresholds. Earnings grow tax-deferred, and distributions are taxed as ordinary income when taken.

Spousal IRA:

If both spouses have compensation, each can maintain a separate IRA — spouses cannot share one account. When filing Married Filing Jointly and one spouse earns less than the contribution limit, that spouse may use the other spouse's compensation to qualify for contributions. For example, if Jill is a full-time student under age 50 with no taxable compensation and her husband Barry has taxable compensation of $30,000, both can each contribute $7,500 to their own IRAs for 2026 on a joint return.

Roth IRA:

A Roth IRA operates under the same general rules as a traditional IRA with a few key differences. Contributions are not deductible, so whether the taxpayer is covered by an employer plan is irrelevant. The payoff comes on the back end — qualified distributions are tax free, and unlike a traditional IRA, no required minimum distributions apply during the owner's lifetime. Contributions phase out above certain modified AGI thresholds, and the same $7,500 ($8,600 age 50 or older) limit for 2026 applies, combined across both traditional and Roth IRA contributions.

SEP IRA:
A SEP IRA is a traditional IRA with higher contribution limits, funded by an employer or self-employed individual on behalf of employees or themselves. Distributions follow the same rules as traditional IRAs. Notably, SEP plans (excluding SARSEPs) can now allow employees to treat SEP contributions as Roth contributions in whole or in part.

SIMPLE IRA:
SIMPLE IRA plans are available to small employers with 100 or fewer employees. Eligible employees are those who received at least $5,000 in compensation during any two prior years and reasonably expect at least $5,000 in the current year. SIMPLE IRA plans can also accept Roth contributions, giving employees additional flexibility in how their savings are taxed at retirement.

Prohibited Transactions:
IRA owners should be aware that certain actions trigger penalties. Prohibited transactions include borrowing from an IRA, using IRA funds as loan collateral, selling property to an IRA, buying property for personal use with IRA funds, and investing in collectibles.

Choosing between a traditional and Roth IRA often comes down to whether the tax benefit is more valuable now (deductible contribution) or later (tax-free distribution). I can go deeper into deduction phaseout thresholds, Roth conversion strategies, or early withdrawal exceptions if that would be helpful.

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