

Look forward to retirement

An IRA can help you get ready.



What do you want to do when you retire?

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Travel? Spend more time with family and friends? Or just enjoy life on your own terms?

Whatever your plan, you'll need income to replace your paycheck. And the best way to make sure you have enough income at retirement is to start planning now. An IRA can help.

What's an IRA?

It's a financial account designed to help you save for retirement. (And it can help you save on taxes, too.) There are two main kinds of IRAs: a traditional IRA and a Roth IRA. Whichever is better for you depends on your goals and a few other things.

We'll help you figure it out.

Think about your goals

How do you want to spend your retirement years?

Write your goals here

Keep your timeline in mind

How long until you retire?

- > Retirement age: _____
- > Years until retirement: _____

What kind of investor are you?

- > **Short-term investor**—Those who invest for five years or less. They usually need easy access to funds, so investments need to be very stable.
- > **Intermediate-term investor**—Those who expect to invest from between five to 10 years. They might need investments with stability and growth potential.
- > **Long-term investor**—Those who expect to invest for at least 10 years. They have more time to ride out the ups and downs of the stock market.

Know the risks

While goals keep you pointed in the right direction, risks are the unforeseen barriers that can get in your way. Keep these risk factors in mind:

- > **Inflation risk** is the risk that investment returns may not keep up with the rate of inflation. When that happens, you lose purchasing power—because your money doesn't go as far as it did.
- > **Investment risk** is the day-to-day potential for investment losses. Portfolios that invest more in stocks (instead of bonds) have more investment risk. But they also have higher average returns when compounded annually over longer time frames.

Manage the risks

You can protect your investments from these risks. Diversification can help.

- > **Diversification** means choosing a mix of investments (like stocks, bonds, and cash equivalents). This helps you reduce the level of risk of your portfolio—while still giving you the chance for higher growth potential. Your financial advisor can help you find an investment mix that's right for you.

Your goals and risk tolerance will likely change over time. Check in with your financial professional whenever you experience a major life event.

Which kind of IRA is right for you?

So you've established your goals. Now let's take a closer look at IRAs. There are two basic types: traditional IRA and Roth IRA.

Traditional IRA

Get a tax break now. And get the opportunity for tax-deferred growth.

A traditional IRA gives you immediate tax advantages (depending on your income and other retirement plan coverage). You don't pay income taxes on the money you've invested in a traditional IRA—or on your earnings—until you withdraw it from your account.

Distributions must begin by April 1 of the year after you turn 72. If you make withdrawals before age 59½, you may have to pay a 10% IRS penalty.

Roth IRA

Make post-tax contributions now. And get the potential for earnings and distributions free of federal taxes. A Roth IRA may give you more after-tax income and withdrawal flexibility than a traditional IRA. This can be a good solution if you don't need the tax break right now. Or if you don't qualify to deduct traditional IRA contributions.

You don't pay federal taxes on your earnings or withdrawals, as long as you meet certain guidelines (see page 5 for details). You also don't have to take mandatory distributions when you turn 72.



So, which IRA is right for you?

Check each statement that describes you. Have you checked more statements in the traditional IRA or the Roth IRA column?

Traditional IRA

- My spouse and/or I have earned income.
- I believe that my tax bracket in retirement will be lower than my tax bracket now.
- An immediate federal income tax deduction would help me out greatly.
- I'm not currently covered by an employer-sponsored plan.
- I want to put money away and not touch it until I retire.
- I prefer to defer payment of taxes until I take distributions.

Total checked ____

Roth IRA

- My spouse and/or I have earned income.
- I believe that my tax bracket in retirement will be higher than my tax bracket now.
- Being able to access my contributions before age 59½ without penalties is important to me.
- I prefer the opportunity for federal tax-free qualified distributions in the future.

Annual Modified Adjusted Gross Income is:

- Lower than \$125,000 (single)*
- Combined with my spouse and is less than \$198,000 (married)*

Total checked ____

These are the main differences and factors you should consider. But they may not include all of the circumstances that could affect your decision. You should talk with your tax advisor before you open a traditional or a Roth IRA.

* For 2021 tax year.

Let's compare: Traditional IRA vs. Roth IRA

Traditional IRA	Roth IRA
Eligibility	
Eligible wage earners of any age. Deductibility subject to limitations; see below.	Eligible wage earners of any age. Subject to limitations; see below.
Annual contribution limits	
Total maximum contributions to any IRA or combination of IRAs must not exceed the annual contribution limits for that year.	
2021—\$6,000	Same as traditional IRA. Must have household Modified Adjusted Gross Income (MAGI) of \$125,000 (single) and \$198,000 (married) in order to make maximum contribution.*
Catch-up contributions for age 50 and older is an additional \$1,000 annually.	Individuals with MAGI of \$125,000 – \$140,000 or married couples with MAGI of \$198,000 – \$208,000 may make lower contributions.*
Deductibility of Contributions	
Fully income tax-deductible (federal) if not covered by an employer-sponsored retirement plan.	Not tax-deductible.
Fully income tax-deductible (federal) if covered by an employer-sponsored retirement plan and household MAGI is below \$66,000 (single) or \$105,000 (married).*	
Individuals with MAGI of \$66,000 – \$76,000, or married couples filing jointly with MAGI of \$105,000 – \$125,000, may make partially deductible contributions.*	
Earnings	
Income tax-deferred.	Federally tax-free if taken after five years and meets any one of the following: age 59½, death, disability, or first-time home purchase (up to \$10,000).
Taxation on Withdrawals	
Withdrawals are taxed as ordinary income (except those representing nondeductible contributions).	Contributions are federally tax-free at any time. Taxation on earnings — see above.
Distribution Rules	
Must begin withdrawing by April 1 of the year after you reach age 72.	Not required to take distribution by any certain age.
Early Withdrawal Considerations	
Withdrawals taken prior to age 59½ are subject to a 10% IRS-imposed penalty unless one of several conditions is met. They include: <ul style="list-style-type: none"> • Death or disability • Catastrophic medical expenses • First-time home purchase (up to \$10,000) • Higher education • Substantially equal periodic payments • Additional exceptions may apply 	Withdrawals of earnings which do not meet the five-year exception are subject to a 10% IRS-imposed penalty unless one of several conditions is met. This includes: <ul style="list-style-type: none"> • Age 59½ • Death or disability • Catastrophic medical expenses • First-time home purchase (up to \$10,000) • Higher education • Substantially equal periodic payments • Additional exceptions may apply

* For 2021 tax year.

Required minimum distributions: what you need to know

The IRS offers tax breaks for people who invest in traditional IRAs and employer-sponsored qualified retirement plans.

Eventually, though, they want to make sure they collect taxes on that money. That's why you have to start taking a required minimum distribution (RMD) each year once you reach age 72.

If you don't take your RMD at the right time (and/or in the right amount), you could face some hefty fines. Make the most of your RMD. This plan will help.

Step 1

Figure out when to start your RMD

For a traditional IRA, you have to start taking your RMD by April 1 of the calendar year following the year you turn 72.

Step 2

Determine the amount of your RMD

Start by looking at your account value as of December 31 of the previous year. (Your financial advisor can help you find this on your year-end statement.)

Next, take this value and divide it by a number called the life expectancy factor. This is a number that corresponds with your age (at the end of the year) on the IRS Uniform Lifetime Table (see table at right).

The equation

$$\frac{\text{Prior Year's 12/31 Account Value}}{\text{Life Expectancy Factor}} = \text{RMD}$$

(see table at right)

Step 3

Decide how to take your RMDs

If you have more than one IRA, you have options. Add up the RMDs from each of your IRA accounts. You can take the total distribution amount from one of the IRAs. Or you can take any combination of them to satisfy the IRS requirements.

Note: If your spouse is more than 10-years younger than you, the Joint Life and Last Survivor Expectancy should be used instead. You can find this table at the IRS.gov website.

Uniform Lifetime Table

(use age as of 12/31 of the current year)

Age	Life expectancy factor	Age	Life expectancy factor
70	27.4	93	9.6
71	26.5	94	9.1
72	25.6	95	8.6
73	24.7	96	8.1
74	23.8	97	7.6
75	22.9	98	7.1
76	22.0	99	6.7
77	21.2	100	6.3
78	20.3	101	5.9
79	19.5	102	5.5
80	18.7	103	5.2
81	17.9	104	4.9
82	17.1	105	4.5
83	16.3	106	4.2
84	15.5	107	3.9
85	14.8	108	3.7
86	14.1	109	3.4
87	13.4	110	3.1
88	12.7	111	2.9
89	12.0	112	2.6
90	11.4	113	2.4
91	10.8	114	2.1
92	10.2	115 +	1.9

*Source: irs.gov.

Helpful Tips:

- Rather than waiting until April 1 to take your first RMD, you may want to consider taking it by December 31 of the year you turn age 72 to avoid having two RMDs in one year. That could bump you into a higher tax bracket.
- ROTH IRAs do not require account holders to take an RMD.

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Need to take an early withdrawal?

If you need to dip into your IRA before you turn 59½.

Normally, you'd have to pay a 10% early IRS withdrawal penalty.¹ But thanks to 72(t)—a provision of the Internal Revenue Code—there's a way to avoid this penalty.

To qualify, the distributions have to be:

- Part of a series of substantially equal periodic payments.
- Made at least annually (calendar year).
- Calculated to be paid for either the life or life expectancy of an individual or the joint lives or joint life expectancies of the individual and their beneficiary.

To maintain your IRS penalty-free status, the series of substantially equal payments:

- Must continue for the longer of five years or until you reach age 59½.
- Cannot be modified in any fashion including taking out additional money, contributing to the account, or changing the distribution amount.²

Any variation from the above will result in all previous distributions being subject to the 10% IRS penalty and potentially interest on the penalty amount.



How Does 72(t) Work?

There are three ways you can determine your payment amount using 72(t).

Method	How it Works
Amortization	The annual payment is calculated by amortizing the account balance in level amounts over a specified number of years using a life expectancy table and a standard, pre-determined interest rate.
Annuitization	The payment is determined using an annuity factor and a standard, pre-determined interest rate. This also results in a payment amount that doesn't change over the withdrawal period.
Life expectancy	This method calculates a payment that'll vary each year based on the account value at previous year end.

¹ Distributions from employer plans taken after separation from service in the year the employee reaches age 55 or older aren't subject to the early withdrawal penalty.

² There's an exception to change the chosen payment calculation method from a fixed method to the life expectancy method without incurring a penalty.

Open your IRA online at Principal.com in just a few simple steps or call us at 800-247-8000, ext. 2251, and one of our financial professionals will set up your account.



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