FRANKLIN TEMPLETON

INVESTOR'S GUIDE

TRADITIONAL & ROTH IRA

Whether you are just starting to save or entering retirement, an IRA can be an important part of a sound financial strategy to meet your retirement goals. Almost 37% of Americans, or an estimated 47.9 million households in the United States, save for retirement with IRAs.[1]

That's because they're an easy way to invest and offer a combination of advantages that are hard to pass up:

- Tax-advantaged benefits
- Annual contribution opportunity
- Wide choice of investments

1. Source: Investment Company Institute, *The Role of IRAs in U.S. Households' Saving for Retirement, 2020*, ICI Research Perspective, December 2020, Vol. 27, No. 1.

Different IRAs, Different Benefits

An individual may choose to invest in one or both types of IRAs: **Traditional** and **Roth**.

Both a Traditional IRA and a Roth IRA are convenient, tax-advantaged ways to invest for retirement. Before you invest, use this brochure to get to know the features and benefits of each one. Then, work with your tax and financial professional to consider how IRAs fit with your overall retirement planning objectives.

	Traditional IRA	Roth IRA
Description	Traditional IRAs offer the advantage of tax-deductible contributions that reduce the amount of current federal income tax you pay. In addition to upfront tax savings, the money in a Traditional IRA grows tax-deferred.	A Roth IRA is a retirement account in which you make contributions with after-tax money, but future earnings and capital gains accumulate tax-free. Unlike a Traditional IRA, there is no income tax on qualified Roth IRA withdrawals.
Taxes	Tax-deductible contributions: Your contribution to a Traditional IRA may be tax-deductible, depending on your adjusted gross income. See eligibility details on page 6. A tax deduction will reduce the amount of tax you pay for the year that you make the contribution. Your investment in a Traditional IRA is not taxed as long as it remains within the account, maximizing the potential compounded return.[2]	No upfront tax deduction: Your contribution to a Roth IRA is not tax-deductible so there is no reduction of taxes in the year you make the contribution. See eligibility details on page 7. Like the Traditional IRA, your investment in a Roth IRA is not taxed as long as it remains within the account, maximizing the potential compounded return.[2]
Distributions*	Distributions taxed as income: Distributions from your Traditional IRA are generally taxable at your regular income tax rate.	Tax-free distributions: Distributions from your Roth IRA are generally tax-free if your account has been open for five years or more and you are 59½ or older (or another exception applies). Remember, distributions from Traditional IRAs are generally taxable.
Additional Tax on Distributions before Age 59½	An additional tax of 10% may apply to distributions made before you are 59½, unless an exception applies.	An additional tax of 10% may apply to distributions of earnings made before you are 59½, unless an exception applies.
Required Minimum Distributions	Required Minimum Distributions (RMDs) starting at age 72.	No Required Minimum Distributions (RMDs), as long as the participant is alive.

"The kids are out of college and on their own, so I can really start focusing on saving as much as I can for my retirement. My plan is to continue to contribute to my 401(k) plan at work and to my IRA—I also hope to take advantage of catch-up contributions since I'm over 50."

2. It may be possible to convert pre-tax, employer-sponsored retirement plan accounts to a Roth IRA, depending on your retirement plan's policies. Please consult your employer (plan sponsor) to determine if this option is available, and your financial, legal and tax professionals whether it would be in your best interest based on your specific situation, financial goals and objectives.

* Please see CARES Act update on last page.

Which IRA Is Right for Me?

There are several factors to consider when choosing between a Traditional IRA and a Roth IRA. You may want to ask yourself:

"Do I qualify for a Roth IRA?" If no, consider a Traditional IRA.

"Can I deduct my IRA contribution?" If no, consider a Roth IRA.

"Am I looking to defer withdrawals from the IRA as late as possible?" If yes, consider a Roth IRA. There are no RMDs with a Roth.

Another major factor to consider is whether you expect to be in a lower (or higher) tax bracket when you begin taking distributions from your account.

LOWER TAX BRACKET		HIGHER TAX BRACKET
TRADITIONAL IRA: If you expect your income or taxes will be *lower* when you are retired, and you can deduct your IRA contribution, a Traditional IRA may be your best option. This situation applies to many individuals who currently work full-time and have enough income to save. Lower taxable income in retirement may allow you to pay tax at a lower rate when you distribute from your IRA.	**VS.**	**ROTH IRA: If you expect your income or taxes will be *higher* when you are retired, or you can't deduct your Traditional IRA contribution, a Roth IRA may be your best option.** This situation may apply to savers just starting in their careers, but may apply to anyone in a lower tax bracket due to temporarily reduced gross income or if you expect your taxable income to be exceptionally high during retirement.

Tax Bites and Penalties

A distribution from a Traditional IRA ends the tax-deferred status of the assets you withdraw from your account and they are generally subject to Federal and State income taxes.

Before age 59½

Traditional IRA distributions before age 59½ are generally subject to federal income tax and a 10%* federal early withdrawal penalty, as well as applicable state income taxes and penalties.

Beginning at age 72

The IRS requires you to begin taking distributions from your Traditional IRA each year beginning at age 72, or face stiff penalties. Required Minimum Distributions must begin no later than April 1 following the year in which you reach age 72. **2020 CARES Act update: RMDs are suspended for 2020.**

* Please see CARES Act update on last page.

Should I Convert My Traditional IRA to a Roth IRA?

If you already have a Traditional IRA, a conversion to a Roth IRA may make sense for you if the taxes due upon conversion will not outweigh the possible future benefits offered by a Roth IRA. Roth IRAs are not subject to minimum distribution requirements and may factor in to an estate planning strategy.

The 5-Year Rule

When will you need your assets? To be eligible for tax-free distributions, a Roth IRA account must be open for at least five years and one of the following applies to the IRA owner:

- Is age 59½;
- Becomes permanently disabled or dies;
- Uses the money for a first-time home purchase (up to $10,000 lifetime cap).

Distributions taken before the five-year minimum and prior to age 59½ may be subject to a 10% federal tax penalty in addition to income tax due on earnings.*

No Income Limits

You can convert a Traditional IRA to a Roth IRA, regardless of your income.

Converting to a Roth IRA should be carefully considered and you should talk to your tax and financial professional for more information.

"I started saving for retirement early through a 401(k) plan with my first job after graduating college. After ten years with the company, we decided to start a family and I left my career to become a stay-at-home mother. At that time, I rolled my 401(k) into a Traditional IRA, but now I am considering converting it into a Roth IRA."

If you're considering converting to a Roth IRA, visit **franklintempleton.com** to use the Roth IRA Conversion Planner.

* Please see CARES Act update on last page.

Compare Traditional IRA vs. Roth IRA

Review the main features and benefits of a Traditional IRA and a Roth IRA to determine which one is most appropriate for you.

Traditional IRA

Eligibility

All income earners (and non-working spouses).

2020–2021 Annual Contribution Limits[3]

Tax Year	Maximum Annual Contribution	Additional Annual "Catch-Up" Contribution (For Those Age 50 and Over)
2020	$6,000	$1,000
2021	$6,000	$1,000

2020–2021 Tax-Deductible Contributions[4]

Contributions may be eligible for a tax deduction depending on Traditional IRA owner's:

- Modified AGI and
- Eligibility to participate in an employer plan

		2020 Modified Adjusted Gross Income (AGI)			2021 Modified Adjusted Gross Income (AGI)		
Tax Filing Status	**Eligible for Employer Sponsored Plan?**	**Full Deduction**	**Partial Deduction**	**No Deduction**	**Full Deduction**	**Partial Deduction**	**No Deduction**
Single, Head of Household, or Married, Filing Separately (and did not live with your spouse at any time during the year)	IRA Owner: Eligible	$65,000 or less	$65,001 to $74,999	$75,000 or more	$66,000 or less	$66,001 to $75,999	$76,000 or more
	IRA Owner: Not Eligible	any amount	—	—	any amount	—	—
Married, Filing Jointly or Qualifying Widow(er)	IRA Owner: Eligible	$104,000 or less	$104,001 to $123,999	$124,000 or more	$105,000 or less	$105,001 to $124,999	$125,000 or more
	IRA Owner: Not Eligible Spouse: Eligible	$196,000 or less	$196,001 to $205,999	$206,000 or more	$198,000 or less	$198,001 to $207,999	$208,000 or more
	IRA Owner & Spouse: Not Eligible	any amount	—	—	any amount	—	—
Married, Filing Separately (and lived with your spouse at any time during the year)	IRA Owner: Eligible	—	less than $10,000	$10,000 or more	—	less than $10,000	$10,000 or more
	IRA Owner: Not Eligible	—	—	—	—	—	—

Tax Advantages on Earnings

Taxes on earnings are deferred until money is withdrawn.

Taxes and Penalties on Distributions*

Distributions are subject to ordinary income taxes.

Early distributions are subject to an additional 10% federal tax penalty unless the IRA owner becomes disabled or dies, or:

- Receives the distribution after reaching age 59½
- Uses the distribution for:
  - first-time home purchase (up to $10,000 lifetime cap)
  - qualified higher education expenses
  - deductible medical expenses
  - health insurance premiums if IRA account owner has been receiving unemployment compensation for at least 12 weeks
- Takes the distribution in substantially equal periodic payments at least annually.

Required Minimum Distributions

IRA owners must begin taking distributions no later than April 1 following the year they reach age 72.

Conversion to Roth IRA

All IRA account owners are eligible, regardless of modified AGI.

3. If you contribute to both a Traditional IRA and a Roth IRA, the annual contribution limit will apply to the combined amount contributed to both plans. In general, you may roll over assets from employer-sponsored retirement plans in order to maintain their tax-advantaged status. Please contact your financial, legal and tax professionals to determine if it would be in your best interest based on your specific situation, financial goals and objectives.

4. This chart provides general information for determining an IRA deduction. For the tax years 2020 & 2021, a full deduction is the lesser of $6,000 or 100% of compensation. If you are 50 or older in 2020 or 2021, the dollar limit is $7,000. You should consult with your tax professional and/or IRS Publication 590 for more complete information. If you make a non-deductible Traditional IRA contribution, you will be required to file IRS Form 8606 with your tax return.

* Please see CARES Act update on last page.

Roth IRA

All income earners (and non-working spouses), subject to modified AGI requirements.

Tax Filing	2020 Modified Adjusted Gross Income (AGI) Full Contribution	Partial Contribution	Not Eligible	2021 Modified Adjusted Gross Income (AGI) Full Contribution	Partial Contribution	Not Eligible
Single, Head of Household, or Married, Filing Separately (and did not live with your spouse at any time during the year)	$124,000 or less	$124,001 to $138,999	$139,000 or more	$125,000 or less	$125,001 to $139,999	$140,000 or more
Married, Filing Jointly or Qualifying Widow(er)	$196,000 or less	$196,001 to $205,999	$206,000 or more	$198,000 or less	$198,001 to $207,999	$208,000 or more
Married, Filing Separately (and lived with your spouse at any time during the year)	—	less than $10,000	$10,000 or more	—	less than $10,000	$10,000 or more

Tax Year	Maximum Annual Contribution	Additional Annual "Catch-Up" Contribution (For Those Age 50 and Over)
2020	$6,000	$1,000
2021	$6,000	$1,000

Contributions are not tax-deductible.

Distributions of earnings are tax-free, provided the conditions below are met.

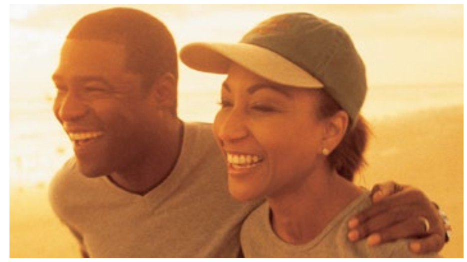
Distributions of earnings are tax-free provided account has been open for at least 5 years and one of the following applies to the IRA owner:

- Is age 59½ or older
- Becomes permanently disabled or dies
- Uses the money for a first-time home purchase (up to $10,000 lifetime cap)

Non-qualified distributions may be subject to ordinary income taxes and an additional 10% federal early withdrawal penalty tax (exceptions to the 10% federal penalty tax are the same as those for Traditional IRAs, listed to the left).

Unlike Traditional IRAs, no minimum distributions are required.
However, minimum distribution rules apply to beneficiaries after account owner's death.

Not applicable



"Planning for retirement is important to us, but we weren't sure if a Traditional or a Roth IRA plan was the best choice for us. Our financial professional reviewed our situation and recommended the best option for us—both the type of IRA and the funds to help meet our investment objectives."

This material is being provided for educational and informational purposes only. It may not address all the tax factors that you might need to consider should you decide to convert all or a portion of your Traditional, SEP or SIMPLE IRA assets to a Roth IRA. Please consult with tax and legal professionals for specific individual recommendations and advice.

The CARES Act and subsequent IRS Notice 2020-50 waive the 10% federal tax penalty for early distributions associated with any "coronavirus-related distribution" (CRD) taken in 2020 for amounts not to exceed an aggregate amount of $100,000 taken from all retirement plans, subject to the following rules:

- Applies to individuals, their spouses or dependents that have been diagnosed with COVID-19; or
- Individuals who experience adverse financial consequences as a result of:
  - The individual, their spouse, or household member being quarantined, being furloughed or laid off, or having work hours reduced due to COVID-19;
  - The individual, their spouse, or household member having a reduction in pay (or self-employment income) due to COVID-19 or having a job offer rescinded or start date for a job delayed due to COVID-19;
  - The individual, their spouse, or household member being unable to work due to lack of childcare due to COVID-19; or
  - Closing or reducing hours of a business owned or operated by the individual, their spouse, or household member due to COVID-19.

Note: a member of the individual's household is someone who shares the individual's principal residence.

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