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HOW TO OPEN A TRADITIONAL IRA IN 5 STEPS

Traditional individual retirement accounts (IRAs) offer a simple and convenient way to save for retirement as well as offering significant potential tax savings. Here's how to open a traditional IRA in just a few easy steps.

THINKING AHEAD: OPENING A TRADITIONAL IRA

A traditional IRA is a great place to start planning for your retirement and a valuable part of almost any retirement portfolio. While it can be tempting to keep your money free and available, it's hard to argue against the long-term growth prospect and tax advantages of this investment

standby, especially if you choose a guaranteed returns option like a certificate-based account.

Here we take a look at [what traditional IRAs are](#), [how they work](#), and the most important [steps](#) you should take to open one. We also consider several [scenarios](#) where opting to open a traditional IRA can make a lot of financial sense. Read on to learn more about how taking the traditional route to retirement savings can be the smartest option.

WHAT IS A TRADITIONAL IRA?

A [traditional individual retirement account](#) lets you make contributions from your income that are invested tax-free until you retire. You can open an IRA account at almost any credit union, bank, or brokerage. IRAs are popular choices for self-employed people who do not have access to an employee-provided 401(k) plan, or for those who want to supplement work retirement benefits.

HOW DOES IT WORK?

Contributions to your IRA are made from your pre-tax income. Currently, [IRS](#) rules allow you to contribute up to \$6,500 a year (\$7,500 if you are over 50) to a traditional IRA.

The money is invested and continues to grow tax free until you reach the age of 59½, when you have the option to begin to make withdrawals. After age 73 you must make required mandatory deductions (RMDs) every year from your account.

HOW DO YOU OPEN A TRADITIONAL IRA?

Let's take a look at some of the key steps, and most important decisions, involved in setting up a traditional IRA—from choosing a provider to deciding how you want to make contributions.

1. CHOOSE WHERE TO OPEN YOUR ACCOUNT

You can open an IRA at almost any credit union, bank, or independent brokerage. While the process is similar there are some significant differences.

- Banks and particularly credit unions will usually offer you a retirement account that works like a savings or certificate account. That means you'll earn regular interest on your contributions, either as monthly dividends paid into your savings account or as periodic payouts when the term certificates you invest in mature.
- Brokerages allow you to put money in your IRA into investments like stocks, bonds, mutual funds, ETFs, and property trusts. Brokerages will usually appoint a broker to assist you with your investment decisions and carry out your instructions, although some online brokerages offer simplified choices through a "robo-advisor."

While brokerage investments may reward you far more richly than a regular savings or certificate account, returns also fluctuate greatly over time. And, brokerage accounts lack the deposit guarantees that cover deposits in bank and credit union accounts. If an investment goes bad, you risk losing not only your interest but also your original investment capital.

These extra services come at a cost, and managed brokerage IRAs usually charge significant

account fees, transaction fees, and even commissions on deals. The initial cost of investing in some mutual funds and trusts can also be high. IRA deposit accounts may charge a monthly or annual maintenance fee but are in many cases free.

The following table summarizes some of the main differences between IRAs held as deposit accounts and brokerage accounts.

Brokerage Account IRAs		Deposit Account IRAs
Financial Institution	<ul style="list-style-type: none">Offered by brokerage and investment companies	<ul style="list-style-type: none">Offered by banks and credit unions
Returns	<ul style="list-style-type: none">Variable. Depends on investment performance	<ul style="list-style-type: none">Steady. Interest rates set by the financial institution
Risk	<ul style="list-style-type: none">High. Investments subject to market fluctuations	<ul style="list-style-type: none">Low. Deposits are not invested in the market
Insurance	<ul style="list-style-type: none">None. Risk of loss of interest and principal	<ul style="list-style-type: none">Deposit accounts insured by FDIC and NCUA
Investment Options	<ul style="list-style-type: none">Wide range of options including stocks, bonds, mutual funds, ETFs	<ul style="list-style-type: none">Cash deposits and fixed-rate certificates
Account Fees	<ul style="list-style-type: none">Transaction fees, commission, account maintenance fees, etc.	<ul style="list-style-type: none">Generally few or no fees

In general, brokerage accounts may be a good option if you want to take a more “hands-on” approach to your retirement planning. Deposit accounts held at a bank or credit union offer ease of use and the peace of mind that your retirement savings will continue to grow over time no matter what the economic conditions.

2. CHOOSE YOUR IRA TYPE

Not all IRAs are the same. In addition to traditional IRAs, there are Roth IRAs and even educational IRAs. Let’s take a closer look at the differences between these options.

- Traditional IRAs:** An IRA where contributions are made from pre-tax income, grow tax-free over time, and are taxed only on withdrawal after age 59½.
- Roth IRAs:** An IRA that allows contributions from your income after tax. Your savings

grow tax-free and can be withdrawn tax-free after age 59½. Contributions are also limited and ultimately [capped](#) for those earning above certain annual income levels.

- **SEP and Simple IRAs:** These are specialized IRAs designed for small business owners or to allow employers to pay directly into your IRA. In general, these function similarly to traditional IRAs.
- **Education IRAs:** An educational savings account that allows tax-free contributions from your income similar to an IRA. These savings can be used to fund the education of a child but, despite the name, Education IRAs can not be used for retirement purposes.

The difference between a traditional and a Roth IRA may seem like a small one. But the difference in the tax you will pay both on your contributions over the years and when you come to withdraw money can be massive. In general:

- **Traditional IRAs** are better if you expect to be in a lower tax bracket when you retire than you are currently. You'll save money by making tax-free contributions now.
- **Roth IRAs** are better if you expect to earn progressively more and retire in a higher tax bracket than you are now in. You'll save money by paying tax on your contributions now and being able to withdraw the money tax-free later.

In practice, this decision can be complex. Your income, prospects, and plans tend to change over the course of a career. For example, the earning restrictions on contributions to a Roth IRA could limit the tax advantages as your income increases or if you choose to file taxes jointly with your spouse. It's best to consult with a tax expert as your needs change.

That said, there is no substitute for making a retirement plan. Opening a traditional IRA now will allow you to begin saving tax free, even if you choose to stop making contributions or roll over funds into a different account later.

3. OPEN YOUR ACCOUNT

Once you know where you want to invest and into what type of IRA, it's time to gather your documents and information and open your account.

To do so you will need to provide a form of government-issued ID, such as a driver's license, state ID, or passport. You will also need to provide personal information including:

- Your name
- Date of birth
- Phone number and address
- Social security number

Whether you open your account online or in person, you will also have to complete application forms that include information about:

- Your preferred contribution method: How you will be making payment into your account
- Your beneficiaries: Details about who you would like to inherit your account when you die
- Other IRA or 401(k) accounts: If you plan to [roll over](#) funds from an e

If you are rolling over existing retirement funds into your traditional IRA, you will also need to complete forms to notify the institution that manages this account.

4. FUND YOUR TRADITIONAL IRA

With the paperwork in place, you will also need to make a minimum deposit to open your traditional IRA. You will usually need to provide banking details so money can be transferred into your account to get the ball rolling.

5. START MAKING CONTRIBUTIONS

With your traditional IRA up and running, you now must make regular contributions to your retirement savings. To get the maximum benefit of the tax advantages offered by a traditional IRA, it makes sense to contribute up to the permitted annual limit if you can afford to do so.

WHEN IS IT SMART TO OPEN A TRADITIONAL IRA?

Traditional IRAs offer easy, flexible retirement savings with significant tax advantages wherever you are in your career. A traditional IRA can be a valuable part of any retirement or investment portfolio, but let's take a look at some specific situations where it can be a particularly wise choice.

STARTING OUT

If you're a recent grad or a new arrival to northern Utah, you've picked a great place to put down roots. And while it can be hard to know what the future holds, it's never too soon to start planning for retirement. A traditional IRA allows you to contribute as little or as much (within limits) as you can afford at this early stage in your career.

CHANGING JOBS

If you're changing jobs and had a 401(k) account through your original employer, now is a great time to roll those valuable matched savings into a traditional IRA, especially if you are now self-employed or your new employer does not offer retirement benefits. You can also supplement your savings with money from a tax refund or some other cash windfall.

GETTING MARRIED

Tying the knot changes your financial situation drastically. This is a good time to sit down with your spouse and figure out the best way to plan for both of your retirements. In many cases, this can mean opening a traditional IRA for at least one of you. Your spouse can even make payments into your account to help you reach your annual limit.

RETIREMENT AGE

Surprisingly, it's also never too late to open an IRA. People are working longer now, often for themselves, so a traditional IRA can be a good way to keep saving money tax free. Provided

you have some sort of earned income, you can now open a traditional IRA and earn the savings and tax benefits no matter what your age!

TRADITIONAL IRAS: A SMART CHOICE AT ANY AGE

Starting to plan for retirement can be daunting, especially if you are just at the start of your career. Traditional IRAs offer a simple, no-fuss way to get the retirement savings ball rolling, making sure you are earning the interest and tax advantages today that will pay off big later.

Choosing to start your retirement savings journey at Wasatch Peaks Credit Union is also a smart move. As a [community-owned](#) credit union with deep local roots, we build strong partnerships with our [members](#) and stick with you as your needs change.

[Contact us](#) today about opening a Wasatch Peaks traditional IRA or click below to learn more.

[See Our Traditional IRA Options & Benefits]