

Rodger on Retirement

The many benefits of a ROTH IRA

I have been told that you are shy, and do not make new friends easily. May I make an important and profitable introduction? Ms. Jones, meet your ROTH.

The ROTH is a type of Individual Retirement Arrangement (IRA) that differs from the traditional IRA. The ROTH enables a large number of Americans to enjoy significant tax-free income in retirement. As with all programs created by the federal government, there are complex rules and procedures to follow. However, if you can abide by the rules, under current law, the massive benefits of the ROTH IRA are yours.

Here are some of the benefits and guidelines to keep in mind as you consider whether a ROTH IRA is appropriate for your personal financial situation. Remember, you should discuss this decision with your tax advisor and financial advisor prior to taking any action.

- You may contribute \$5,500 for the year (\$6,500 if you are age 50 or older – known as a catch up provision)
- The money that you place in a ROTH IRA has already been taxed – in other words, you are contributing after-tax money
- ROTH IRA owners are not subject to required minimum distributions (RMD)
- Qualified withdrawals are *income tax free*. You must have established the account over 5 years ago and be age 59 ½. (There are special rules for death, disability and first time home buyers)
- Contributions to a ROTH IRA for 2017 are restricted to taxpayers who have a modified adjusted gross income (MAGI) of less than \$133,000 for a single taxpayer and \$196,000 for joint filers for tax year 2017.
- Taxpayers over the age of 70 ½ who have earned income may continue to contribute to a ROTH IRA
- You can only contribute to the ROTH IRA if you or your spouse have earned income

So, Ms. Jones, as you can see, the ROTH IRA, with all of its rules and guidelines, is still a pretty likable character. If you abide by all the rules, decades of growth may never be taxed. In fact, for many of us, it is the foundation of an efficient and effective retirement strategy. You see, if you follow the guidelines, and our government does not change the rules mid-game (we can only hope!) the ROTH may provide you with significant tax-free income in retirement. Of course, just because you qualify for a ROTH, does not mean that you will actually take action and fund it, or make wise investment decisions with the money.

Ms. Jones, may I make a recommendation? Why not seek out a team of investment advisors who focus on preparing people for the day their paycheck will stop. Work with investment advisors that boast credentialed professionals on their team.

And yes Ms. Jones, I said team. As much as you may consider working with a sole practitioner, if they become ill or incapacitated, you have a big problem. I recommend always working with a wealth management team whose focus is retirement issues.