

## How a Roth IRA Works



### Account Owner

- Contributions are not tax deductible.
- Total annual contribution is limited.<sup>1</sup>
- Annual contribution limits are coordinated with any traditional IRA.



### Roth IRA Account

- May be opened anytime between January 1 of the current year and the due date of the tax return.
- Traditional IRA can be converted to a Roth IRA<sup>2</sup>.
- Earnings accumulate tax-deferred.
- Account is usually self-directed (owner controls investments).
- A separate spousal Roth IRA may be established for a spouse with little or no earnings.



### Qualified Distributions

- Qualified distributions are tax-free if a five-year holding period is met and one of the following applies - The owner is over 59½, dies, becomes disabled or the distribution is for up to \$10,000 of qualified first-time homebuyer expenses.

### Retirement

- Assuming compensation, contributions may continue to any age.
- No mandatory age for starting withdrawals.
- No minimum distributions required while owner is alive.
- Qualified distributions are received free of federal income tax.

### Death

- Value of Roth IRA is included in owner's federal gross estate.
- If five-year holding period is met, beneficiaries receive funds free of federal income tax.
- A surviving spouse may choose to treat an inherited Roth IRA as his or her own.

<sup>1</sup> The maximum annual contribution is the lesser of \$5,000 (\$10,000 for a married couple) or 100% of compensation. For married couples, no more than \$5,000 may be contributed for either spouse. For a Roth IRA owner age 50 or older, an additional \$1,000 may be contributed (\$2,000 if the spouse is also age 50). The maximum annual contribution to a Roth IRA is phased out for individuals with incomes in excess of certain limits.

<sup>2</sup> The conversion is a taxable event. Previously deducted contributions and all earnings are added to the taxpayer's gross income in the year of conversion. Taxpayers with a modified AGI greater than \$100,000 may not convert. Beginning in 2010, the \$100,000 income limit will no longer apply.