

Learn About IRAs

Roth IRAs

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Is investing for retirement important?

Many ideals are changing in today's society. Concern regarding the long term viability of Social Security continues to grow, and Americans are looking for ways to secure their financial future.

- The trend toward changing employment more frequently lessens an individual's opportunity to acquire great reserves in company pension plans.
- Many new entrepreneurs striking out on their own cannot offer retirement options to themselves or their employees until the company is more financially secure.
- Social Security is no longer seen as the answer to retirement funding.

Individuals need to take the lead in building their retirement nest egg. The Roth IRA gives you the ability to invest your after-tax dollars today, let the investment grow tax-deferred, and withdraw your principal and earnings possibly tax and penalty free.

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What makes the Roth IRA unique?

Imagine for a moment that you have just received a check. You look at your summary and notice that no federal income taxes have been withheld. Your initial reaction is that something is wrong—it's not if this check is from your Roth IRA.

Two factors make this possible:

- First, the money you contribute to a Roth IRA has already been taxed. (In other words, you can't take a tax deduction for your Roth IRA contribution). So the principal amount is never subject to taxes or penalties in the future, as long as you stay within the contribution guidelines.
- Second, this retirement plan allows the money you contribute to grow tax-deferred. If you do not withdraw any of the earnings until you have had the Roth IRA for at least five years and have a qualifying event, those tax-deferred earnings become tax-free.

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Who is eligible to contribute to a Roth IRA?

Unlike the Traditional IRA, there is no 70½ age limit on making contributions. You do, however, need earned income, which is defined the same as for Traditional IRAs. As long as you satisfy the Roth IRA requirements, you may contribute to a Roth IRA, even after the year in which you attain age 70½.

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How much can I contribute?

For 2008 and 2009, the annual contribution limit is the lesser of \$5,000 or 100 percent of earned income.

Contribution eligibility to a Roth IRA depends on the individual's (or if married, the individual and the spouse's) modified adjusted gross income (MAGI) and income tax filing status. The amount that an individual is eligible to contribute may be reduced depending on his MAGI, and if the MAGI falls within certain phase-out ranges.

The 2008 and 2009 phase-out ranges, adjusted cost-of-living increases, are as follows.

Filing Status	2008 MAGI	2009 MAGI
Single	\$101,000-\$116,000	\$105,000-\$120,000
Married, filing joint	\$159,000-\$169,000	\$166,000-\$176,000
Married, filing separate	\$0-\$10,000	\$0-\$10,000

The following specific details for Roth IRA contributions are based on 2008 figures.

- For 2008, single individuals with joint MAGI of \$101,000 or less may contribute the maximum annual contribution (\$5,000 for 2008, plus catch-up contributions, if eligible) to their Roth IRAs.
- Single individuals with MAGI of more than \$101,000 and less than \$116,000 may make partial contributions to their Roth IRAs.
- Single individuals with MAGI of \$116,000 or more may not contribute to Roth IRAs.
- Married individuals who file joint income tax returns with joint MAGI of \$159,000 or less may contribute the maximum annual contribution to their Roth IRAs.
- Married individuals who file joint returns with joint MAGI of more than \$159,000 and less than \$169,000 may make partial contributions to their Roth IRAs.
- Married individuals who file joint returns with MAGI of \$169,000 or more may not contribute to Roth IRAs for that year.
- Married individuals who file separate returns with MAGI of less than \$10,000 may make partial contributions to their Roth IRAs.
- Married individuals who file separate returns with MAGI of \$10,000 or more may not contribute to Roth IRAs.

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What is an IRA catch-up contribution?

Individuals that attain age 50 before the end of the taxable year may be eligible to contribute an additional \$1,000 amount to a Roth IRA as a catch-up contribution.

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What is the contribution deadline?

Individuals must make regular, spousal, and catch-up IRA contributions to Traditional and Roth IRAs by the due date of their federal income tax returns, not including extensions, for that year. April 15 is usually the due date for most taxpayers. If the deadline for filing an individual's income tax return falls on a weekend or holiday, individuals will have until the following business day to make their contributions.

Contributions made between January 1 and April 15 of one year for the previous year are called carry back contributions.

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What is a qualified Roth distribution?

Individuals may take a qualified distribution from a Roth IRA tax and penalty free. A distribution of Roth IRA assets is considered a qualified distribution if two requirements are met. First, your Roth IRA must have been open for a minimum of five years. Second, the withdrawal must be made because of the occurrence of one of the following events.

- Age 59½
- Death
- Disability
- First home purchase

Distributions that meet the above requirements are referred to as "qualified distributions." While you may take distributions from your Roth IRA at any time, distributions that are not qualified distributions may be subject to taxes (and in some cases early distribution penalties) to the extent they exceed your aggregate contributions to Roth IRAs.

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Can I move money from my Traditional IRA to my Roth IRA?

Yes. There are specific rules that govern the process of converting funds from a Traditional IRA to a Roth IRA.

Some of these rules include the following—

- Your MAGI must be \$100,000 or less.

- If you are married, you must file a joint income tax return.
- You must pay taxes on all the pretax dollars that you convert.
- The assets are not subject to the 10 percent penalty if properly converted.

For more information on conversions, see "Conversion from a Traditional IRA" under the Help section.

You should seek advice from a competent tax advisor to determine whether converting your pretax retirement assets is beneficial to you.

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Am I ever required to take distributions from my Roth IRA?

Unlike the Traditional IRA, there are no required minimum distributions due at age 70½. Earnings can continue to grow until you want to take a distribution. There are special distribution requirements, however, when these plans pass to your beneficiaries.

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For more information...

For more information on the benefits of Roth IRAs, ask one of our representatives for details today.

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