
The Roth IRA Turned 20 This Year

The Roth IRA celebrated its 20th birthday in January. Although more households (35 million) own the 43-year-old traditional IRA, the younger Roth is growing faster. Nearly 22 million households now own Roth accounts.

A large segment of the latter group is made up of young investors who expect their incomes to increase over time and appreciate the fact that money they invest will never be taxed again. Pre-retirees relish the fact that Roth IRAs are not subject to required minimum distributions.

Contributions to Roth IRAs are made in three ways. The most common is a direct contribution. For 2018, maximum direct contributions are the same as 2017: \$5,500 for those under 50 or \$6,500 for anyone 50 or older. Contributions for 2017 can be made until April 17, 2018.

To make a direct contribution, your income must fall within limits, which are slightly higher for 2018. If you're single, you can now contribute the full amount if your income falls below \$120,000. You can contribute a reduced amount if your income is \$120,000 or more - provided it's under \$135,000. For married couples who file jointly, the phase-out range is \$189,000 to \$199,000 of combined income.

The second way to contribute is by rolling a 401(k) or 403(b) plan into a Roth, often done when parting from an employer. The terms of an employer's qualified plan may restrict the ability to roll money into a Roth while still employed. There aren't any limits to the amount that can be rolled over in a given year, but you'll pay taxes when converting a pre-tax account to a Roth.

The last way to contribute is by converting a traditional IRA to a Roth. High-income earners who don't qualify to open a Roth IRA can contribute post-tax dollars to a traditional IRA and then convert it.

Owners of a traditional IRA created with pre-tax dollars will pay taxes on the amount converted. In the wake of the new tax law, it's particularly important to have adequate funds on hand to cover taxes. Prior to the law, you could undo the conversion by Oct. 15 of the following year. This strategy, sometimes called recharacterization, is no longer available for 2018.

Note: As of 2006, Roth 401k plans became an additional option. Check with your employer to see if this option is available to you and we can discuss how Roth 401(k) contributions fit into your Financial Plan.

Please keep in mind that no actual tax advice has been provided and any recommendations should be reviewed and implemented in tandem with your tax professional.

Kind regards,
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