

Happy 20th Birthday Roth IRA!

Here Are 20 Roth IRA Facts You Need to Know



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The year 1998 seems like a long time ago. In January 1998, Bill Clinton was in the White House and about to be impeached. The Unabomber was in the news and the Spice Girls were winning music awards. January 1, 1998 also brought us the launch of Roth IRA. However, unlike other '90's memories, the Roth IRA is still going, *stronger than ever*. You may already be reaping the tax benefits of your own Roth IRA. Or, maybe you've hesitated to open one. The 20th anniversary may be the time for you to take the plunge.

To celebrate the occasion, here are 20 Roth facts you need to know:

1. Roth IRAs offer the benefit of tax-free earnings when you follow the rules. With a Roth IRA, you can look forward to completely tax-free distributions when you retire.
2. According to Investment Company Institute statistics, 24.9 million American households had a Roth IRA in 2017.
3. If you are young, a Roth IRA can be a smart strategy because you will have years to let your earnings accumulate and grow tax-free.
4. For 2018, the maximum Roth IRA contribution is \$5,500 for those under age 50 and \$6,500 for those age 50 and older in 2018.
5. There are income limits for Roth IRA contributions. If you are single, your ability to contribute will begin to phase out when your income exceeds \$120,000 (\$189,000 if married filing jointly).
6. A strategy for high earners to fund a Roth IRA may be to do a back-door Roth IRA conversion.
7. You are never too old to contribute to a Roth IRA. Your age is no barrier if you are otherwise eligible.
8. A minor can make a Roth IRA contribution if they have earned income, such as earnings from a summer job.
9. You can convert your traditional IRA to a Roth IRA. There are no income limits that apply. You will need to decide that the benefit of future tax-free earnings outweighs the downside of a tax bill now on the conversion. Conversion is not one size fits all.

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10. While the benefits of conversion can easily be seen for younger people, being older should not rule out conversion. It can be a smart estate planning strategy. By converting, you can leave your retirement funds to your beneficiaries' tax free and they can stretch tax-free distributions for years from the inherited Roth IRA.
11. Thinking conversion might be for you? Talk with a knowledgeable tax or financial advisor. You will want to be sure. The Tax Cuts and Jobs act eliminates the ability to recharacterize or undo a Roth IRA conversion so there are no "do-overs" anymore.
12. You can still recharacterize tax-year contributions. So, if you make a 2018 traditional IRA contribution and decide a Roth IRA contribution would be a better move, you can recharacterize your contribution to your Roth IRA.
13. Are you retiring and deciding what do the funds in your employer plan? Funds that are rollover eligible to a traditional IRA can also be converted to a Roth IRA.
14. If you have both pretax and after-tax funds in your employer plan, rules allow you to convert after-tax funds to a Roth IRA and roll your pretax funds to a traditional IRA. These rules are complicated so be sure to discuss your situation with your tax advisor.
15. If you are under age 59½ and do a Roth IRA conversion, you will need to wait five years before you can access your converted funds without penalty.
16. Roth IRAs are never subject to required minimum distributions (RMDs) while you are living.
17. Your Roth IRA beneficiaries must take RMDs. However, those distributions are almost always tax-free.
18. To take a tax-free distribution of the earnings from your Roth IRA, you must be over age 59½ or disabled, or purchasing your first home and you must have satisfied a five-year waiting period that begins with your first Roth IRA contribution or conversion.
19. The five-year waiting period for tax-free distributions of Roth IRA earnings does not restart with additional contributions or conversions. It begins with the first one and never restarts again.
20. The future looks bright for Roth IRAs. These accounts have grown in number and in balance size over the past 20 years. You can expect Roth IRAs to play an even bigger role in the future. The trend in Congress when debating retirement savings is toward more "Rothification," not less.

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