How a Roth IRA Works

Account Owner

- Contributions are not tax deductible.
- Total annual contribution is limited.[1]
- Annual contribution limits are coordinated with any traditional IRA.

ROTH IRA ACCOUNT

- May be opened anytime between January 1 of current year until due date of tax return.
- Traditional IRA can be converted to a Roth IRA.[2]
- 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 earned income.

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.

---

[1] The maximum annual contribution is the lesser of $5,500 ($11,000 for a married couple) or 100% of compensation. For married couples, no more than $5,500 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 or older). The maximum annual contribution to a Roth IRA is phased out for individuals with incomes in excess of certain limits.

[2] The conversion is a taxable event. Gross income for the year of conversion is increased by previously deducted contributions, plus net earnings (or minus net losses).