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# ARE YOU TOO OLD TO BENEFIT FROM A ROTH IRA?

Learn the pros and cons of opening and contributing to a Roth IRA near retirement.

By: Rachel Hartman - November 29, 2022

Roth IRAs can provide significant tax benefits to young people. If you're nearing the end of your career, you may be wondering if a Roth IRA is still a wise addition to your portfolio. It is possible to open a Roth IRA later in life and start saving. However, there are certain criteria you'll have to meet in terms of income, the amount you can contribute and when you are eligible to make penalty-free withdrawals.

As you consider opening a Roth IRA close to retirement, you'll want to know about:

- The Roth IRA income requirements.
- The tax benefits of a Roth IRA.
- Age considerations with a Roth IRA.
- The chance to pass funds to heirs.

## Roth IRA Requirements

There is no maximum age limit to contribute to a Roth IRA, so you can add funds after creating the account if you meet the qualifications. You can contribute up to $6,000 in 2022 or $7,000 if you're at least 50 years old. In 2023, the contribution limit is $6,500, or $7,500 if you're 50 or older. You'll need to have the account open for at least five years in order to take penalty-free withdrawals in retirement. If you take out funds before then, you could face penalties.

When you make contributions to a Roth IRA, it must be with earned income. You might use some of your salary or wages from a job to save. The income will need to be actively earned, meaning it must come from compensation. Passive income, such as money received from rental investments, cannot be contributed.

If you are a single person, you can put funds in a Roth IRA if you earn up to $138,000 in 2023. After that, the amount you are eligible to contribute is phased out until your income exceeds $153,000 in 2023, at which point you can no longer put money directly in a Roth IRA. For married couples, the income threshold to make full contributions is less than $218,000 in 2023, and if your joint income exceeds $228,000, contributions can no longer be made.

## The Tax Benefits of a Roth IRA

When you make contributions to a Roth IRA, the funds are taxed before they go into the account. The after-tax dollars have the chance to grow over time and be withdrawn without being subject to further taxes. "The major advantage of the Roth IRA is that qualified distributions are not considered taxable income, meaning both contributions and earnings are distributed free of income taxes," says Nicole Birkett-Brunkhorst, a wealth planner with U.S. Bank in St. Louis, Missouri. For distributions to be qualified, your Roth account must be at least five years old. In addition to the five-year rule, a qualified distribution must fit one of the following eligibility requirements:

- The owner is at least age 59 1/2.
- The original owner passes away.
- The owner meets disability requirements.
- Qualified first-time homebuyer expenses of up to $10,000

## Age Considerations With a Roth IRA

While you could continue to work into your 70s and contribute to a Roth IRA, there are considerations to make before doing so. "The tax-free growth of Roth IRAs is more beneficial as the average rate of return and the holding period increase," says Scott Butler, a wealth manager and certified retirement counselor at Klauenberg Retirement Solutions in Laurel, Maryland. "Many are also at their highest income level and, consequently, higher tax brackets later in their careers."

Since your contributions will be made with after-tax dollars, you could be paying more in taxes at a higher income level. If you exceed the income limits for contributions, you won't be able to put funds in a Roth IRA. "These factors do generally make it more advantageous to contribute at younger ages," Butler says. "However, for individuals who partially retire, or pick up some part-time work after retirement, those years of lower taxable income may be good candidates for Roth IRA contributions."

If you're approaching retirement and do not have many tax-free dollars invested, a Roth IRA could be helpful. "With retirements lasting 30 years or more these days, even someone retiring today will need to be prepared to have assets they will not be using for a long time," Butler says. "Roth dollars are great with that kind of time frame." You'll also have some control over your future taxes, as withdrawals won't be exposed to tax rate increases. If you have a large, unexpected expense early in retirement, you could use Roth dollars to cover the cost, rather than pulling funds from an account that would be subject to taxes.

## The Chance to Pass Funds to Heirs

For pre-tax retirement accounts, including the traditional IRA or 401(k), there are required minimum distributions that start at a certain age. Typically, after you turn 72, you'll need to take out a certain amount each year. However, you don't have to follow that plan with a Roth IRA. "Currently, there is no requirement for you to withdraw your money from a Roth IRA," says Brian Dudley, senior vice president and financial advisor at Wealth Enhancement Group in Burlington, Massachusetts. The funds you don't take out could be passed on, tax-free, to your heirs. "Your beneficiaries may be able to inherit your money while allowing it to continue to grow tax-deferred for up to ten years, and then withdraw the funds tax-free," Dudley says.

Are you too old to open and contribute to a Roth IRA? Dudley says, "No, as long as the move benefits you and your family."

Scott Butler, CRC®, is a financial planner with Klauenberg Retirement Solutions. Using his background as a former teacher, Scott breaks down financial topics to levels that clients can more easily understand, believing each person should have a basic understanding of the wealth strategies and products that work for them.

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