

Roth IRAs: A great IRA for almost everyone.

Even though Roth IRAs have been around for 10 years already, many people are still trying to figure out the differences between the Traditional IRA and the Roth IRA. By comparing a few of the basic IRA provisions, we may be able to clear up some of this mystery.

Contributions:

The maximum contribution limits for Roth IRAs and Traditional IRAs are the same - \$4,000 for 2007 and \$5,000 for 2008, plus an additional \$1,000 for investors over age 50.

The income thresholds, however, are higher for the Roth IRA than for the Traditional IRA which means more people are eligible to make Roth contributions. Also Traditional IRA contribution limits are reduced even more if the individual or spouse participates in a retirement plan at work. There are no retirement plan limitations on Roth IRA contributions.

Unlike a Traditional IRA, Roth contributions may be made even past age 70 ½ as long as the owner has an earned income.

Deductions:

Contributions to Roth IRAs are made with after-tax dollars. (which means that you **cannot** take a tax deduction for the Roth contributions) Traditional IRA contributions, up to the income limitations, are deductible.

Earnings and Distributions:

While the contributions into a Roth grow tax deferred (no tax annually on the growth) just like in a Traditional IRA, the major difference between a Traditional IRA and a Roth IRA is that “qualified” distributions from the Roth can be totally **Tax Free**. Distributions from a Traditional IRA will be paid out as “ordinary income” for tax purposes and will be taxed at your regular marginal tax rate.

Withdrawals:

One of the little known provisions of a Roth IRA is that withdrawals are taken first from contributions, so **contributions** can be withdrawn at any time without penalty or tax. If you have an emergency, and really need to get at IRA money, removing contributions from your Roth might be your best option. Withdrawals from a Traditional IRA, at any time, are taxable and may be subject to a 10% penalty if the withdrawal is made prior to age 59 ½. (some exceptions apply)

Conversions:

Now that we know that we can build our own personal retirement account and never have to worry about the government taking a big chunk of it, should all the Traditional IRAs be converted to Roth IRAs? The answer is a resounding MAYBE! Just like anything else, there are regulations, limitations and important tax issues to be considered before converting any Traditional IRA to a Roth. If you would like to discuss Roth IRA conversions, or other financial matters, feel free to give us a call at Covenant Financial Planning. Our phone number is 586-739-3550.

This information is not meant to be a complete discussion or description of either a Traditional or a Roth IRA. IRS publication 590 contains detailed information on both IRAs.

The author, Robert Wier is a Registered Investment Advisor Representative. He has been in the insurance and financial services field for over 30 years and holds securities licenses in Michigan and California.

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