

More Questions?

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Roth IRA

Answers to Your Questions



Not intended as tax advice. Please consult a tax professional.

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The flexibility you need, the benefits you want.

Roth IRAs offer unique and exciting savings opportunities, and they've gotten better over the years. Roth IRAs give many members an easy and safe way to plan for the future.

With a Roth IRA:

- ▶ Contributions are allowed at any age
- ▶ Qualified distributions are tax-free
- ▶ Flexible withdrawal options are available

This brochure provides answers to the most commonly asked questions about Roth IRAs. Your credit union is also ready and willing to answer other IRA questions you may have.



Q. What is a Roth IRA?

- A. A Roth IRA is an individual retirement account created by the Taxpayer Relief Act of 1997. Named for the late Senate Finance Committee Chairman William Roth, Jr., this IRA offers generous incentives to boost your retirement savings, as well as more ways to use your nest egg.

Q. How does a Roth IRA work?

- A. Unlike traditional IRAs, contributions to a Roth IRA are never tax-deductible. However, the money in your Roth IRA, including earnings, can be withdrawn tax-free. Of course, you must conform to certain tax requirements to get this tax-free advantage.

Q. Am I eligible to contribute to a Roth IRA?

- A. You are eligible if your income is less than a limit set by Congress and you earn compensation (or your spouse earns compensation and you file a joint return). If your income is too high to contribute the annual contribution limit, you may be able to make a smaller contribution. Check with a tax professional for current figures.

Q. How much is the annual contribution limit?

- A. The annual contribution limit for someone under age 50 is \$5,000. The annual contribution limit for someone age 50 or older is \$6,000.

Q. Can I still contribute to a Roth IRA if I participate in an employer-sponsored retirement plan?

- A. Yes, and you can contribute past age 70½, as long as you continue to earn compensation.

Contributions are allowed at any age.



Q. Will my Roth IRA affect the amount that I can contribute to my employer-sponsored retirement plan?

A. No. The amount you contribute to your 401(k) or other employer-sponsored plans will not be affected by your Roth IRA.

Q. Can I have both a traditional IRA and Roth IRA?

A. Yes, you can contribute to both types of IRAs for the same year. But the total of the contributions that you make to both types of IRAs for the same year cannot exceed your contribution limit for that year.

Q. When can I start taking tax-free distributions from my Roth IRA?

A. You can withdraw regular contributions without paying income tax at any time. Distributions are treated as first being attributable to your regular contributions until all of your regular contributions have been distributed.

There are two requirements to qualify for tax-free withdrawals of the income your Roth IRA has earned. First, your Roth IRA must meet the “five-year test.” In other words, it must be five years after the first year for which Roth contributions were made. Second, one of the following conditions must apply:

- (a) You are over age 59½
- (b) Funds are going to your beneficiary upon your death
- (c) You have become disabled
- (d) You are using the funds for a first-time home purchase (lifetime limit is \$10,000 per person)

Q. What if I make a withdrawal from my Roth IRA and I am not age 59½ or covered by any exceptions?

A. Unless an exception applies, earnings distributed before age 59½ are subject to the 10% early distribution tax. A distribution of an IRA or QRP conversion contribution is also subject to this 10% tax during the first five years after it was made.

Q. Do I have to receive minimum distributions when I reach age 70½?

A. No. You are not required to start receiving minimum distributions when you reach age 70½. If you don’t need the cash, you can let your money continue to grow tax-free for as long as you like. However, minimum distributions must be made to your beneficiaries following your death.

Q. Can I roll over funds from one Roth IRA to another Roth IRA?

A. Yes. A rollover or direct transfer from one Roth IRA to another Roth IRA is tax-free and can be made regardless of your MAGI.

Q. What should I do if I am eligible to contribute to both a Roth IRA and my company retirement plan, but I don’t have enough money to contribute the maximum to both?

A. Experts recommend that you first contribute at least enough to your company plan to take full advantage of any employer match. After getting the full employer match, the best approach varies, depending on your circumstances. Consult with a tax professional if you are unsure.

Flexible withdrawal options are available.



Q. Does it make sense to make an after-tax voluntary contribution to my company retirement plan instead of a Roth contribution?

A. No, the tax benefits from making a Roth IRA contribution equal or exceed those from making an after-tax voluntary contribution.

Q. Does it make sense to make a nondeductible contribution to a traditional IRA instead of a Roth contribution?

A. No, the tax benefits from making a Roth IRA contribution equal or exceed those from making a traditional IRA contribution.

Q. What if I can deduct a contribution to a traditional IRA?

A. In general, a person who can afford to make the maximum Roth IRA contribution will benefit more from making Roth IRA contributions. This may not be true if you are close to retirement and it appears that your tax bracket will go down substantially after retirement. You should also consider a deductible traditional IRA contribution if losing the deduction would reduce the amount you can contribute. Seek tax advice if you are in doubt.

Q. Can my Roth IRA be inherited?

A. Yes. Upon your death, the entire proceeds are passed on tax-free to your beneficiaries, once the five-year test has been met. This means your beneficiaries can avoid all taxes by waiting until the end of the five-year period before receiving the earnings portion of the account.

Q. How will I know if I am a good candidate to convert my traditional IRA to a Roth IRA?

A. The desirability will differ with each individual's financial circumstances. Because this decision is a complicated one, you should consult a tax professional. Consider several key questions:

- ▶ Would most of the funds in your traditional IRA be subject to income tax in the conversion?
- ▶ Can you afford to pay the income taxes due on the conversion from funds outside of your IRA funds?
- ▶ What tax bracket are you in now, and what tax bracket do you think you will be in when you retire?
- ▶ How long is it before you retire?
- ▶ Is the Roth IRA useful to you as an estate planning tool?

Note: Beginning in 2010, any traditional IRA owner can make an IRA conversion contribution to a Roth IRA, and any qualified retirement plan (QRP) participant can make a QRP conversion contribution to a Roth IRA. This new rule also applies to IRA conversion contributions. For 2010 conversions, the contribution will not be taxed in 2010, but instead will be split evenly over 2011 and 2012.

Q. I know about the federal taxes due on Roth accounts, but what about state taxes?

A. In many states, treatment of the Roth IRA for state tax purposes is the same as the treatment of the account for federal tax purposes by the IRS. Consult your tax adviser for more information on state taxes for the Roth IRA.