



Retirement Planning: Roth IRA Basics

Definition

A Roth individual retirement account (IRA) is a personal savings plan that offers tax benefits to encourage retirement savings. You can contribute up to the lesser of \$6,000 in 2020 (\$7,000 if you're age 50 or older), or 100% of your taxable compensation to a Roth IRA. You may also be able to contribute up to \$6,000 to a Roth IRA in your spouse's name even if they receive little or no taxable compensation (\$7,000 if your spouse is 50 or older). Contributions to a Roth IRA are not tax deductible, but the funds grow tax deferred and distributions are tax free under certain conditions. You can make contributions up to the due date of your federal income tax return for that year (usually April 15 of the following year), not including extensions.

Prerequisites

- You have taxable compensation (i.e., wages, self-employment income) during the year of the contribution
- Your modified adjusted gross income (MAGI) for 2020 must be:
 1. \$124,000 or less for a full contribution if your tax filing status is single or head of household (partial contribution allowed, up to MAGI of \$139,000)
 2. \$196,000 or less for a full contribution if your tax filing status is married filing jointly or qualifying widow(er) (partial contribution allowed, up to MAGI of \$206,000)
 3. \$10,000 or less for a partial contribution if your tax filing status is married filing separately and you lived with your spouse at any time during the year (full contribution not allowed)

NOTE: These income ranges are for the 2020 tax year and are indexed for inflation

Key Strengths

- Qualified distributions are tax free (and penalty free)
- You can contribute after age 70 ½ (as long as you have taxable compensation)
- You have flexibility in withdrawing your funds prior to retirement
- You are not required to take any distributions while you are alive
- Contributions can be made even if you are covered by an employer-sponsored retirement plan
- IRAs offer a wide range of investment choices

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- \$1,283,025 of IRA assets may be protected in the event of bankruptcy under federal law (SEP IRAs, Simple IRAs, and amounts rolled over to an IRA from an employer qualified plan or 403(b) plan, plus any earnings on the rollover, are not subject to this dollar cap and are fully protected under federal law if you declare bankruptcy)

Key Tradeoffs

- You receive no tax deduction when you make a contribution
- If a withdrawal does not qualify for tax-free status, the portion that represents earnings is subject to federal income tax (and perhaps an early withdrawal penalty if under age 59½)
- Special penalty provisions may apply to withdrawals of Roth IRA funds that were converted or rolled over from a traditional IRA, SEP IRA, or SIMPLE IRA
- There is always the possibility that the law will change in the future

Variations from State to State

- States vary in their protection of IRAs from creditors
- States differ in their tax treatment of Roth IRAs

Implementation

Sound Wealth Management Group (SWMG) can help you cut through the possible confusion and make the best choice for your goals. If you have questions or would like further information regarding Roth IRAs, we invite you to contact SWMG for a complimentary consultation. We can provide professional guidance to assist you in making the appropriate choices that will serve your needs and best interests. Let's have the conversation...



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