Roth IRA Overview

An investment in a Roth IRA combines the tax-deferred growth of a Traditional IRA with the added benefit of tax-free withdrawals upon retirement. While there are certainly pros and cons to investing in both types of Individual Retirement Accounts (IRAs), there is no doubt that a Roth IRA is an important consideration for anyone reviewing their retirement planning options.

Who is eligible to contribute to a Roth IRA?

Generally, anyone with earned income and whose modified Adjusted Gross Income (AGI) is below a certain level can establish a Roth IRA. You may have a Roth IRA even if you participate in an employer-sponsored retirement plan, such as a 401(k) plan, 403(b) plan or a profit sharing plan. The maximum amount you (or your spouse) can contribute is 100% of compensation up to the annual limit. For Roth IRA income eligibility and contribution limits see the tables below.

Income Eligibility

Tax Filing Status	Modified Adjusted Gross Income (AGI)	Contribution Amount
Single Taxpayers	• $117,000 • $117,000 - $132,000 • $132,000	• Full amount • Partial amount • Not eligible to contribute
Married, Filing a Joint Tax Return	• $184,000 • $184,000 - $194,000 • $194,000	• Full amount • Partial amount • Not eligible to contribute
Married, Filing a Separate Tax Return[1] (and you lived with your spouse)	• $0 - $10,000 • $10,000	• Partial amount • Not eligible to contribute

Contribution Limits

Year	Maximum Annual Individual Contribution Amount	Additional "Catch-Up" Contribution Amount (Age 50+)
2008-2012	$5,000	$1,000
2013-2016	$5,500	$1,000
Beyond 2016	Indexed for Cost-of-Living Adjustments (COLA)	

The Advantages of a Roth IRA

- While there is no immediate tax deduction for contributing to a Roth IRA, your contributions can be withdrawn tax-and penalty-free at any time.
- There are no age restrictions on making contributions to the account as long as you (or your spouse) have earned income and you meet the eligibility income requirements.
- Unlike a Traditional IRA, Roth IRAs are not subject to the Required Minimum Distribution rules at age 70-½, meaning the account can continue to grow on a tax-free basis.
- Earnings can be withdrawn tax- and penalty-free after five (5) years, and:
- Attainment of age 59-½; or
- Death; or
- Disability; or
- "First-time" home purchase (lifetime limit of up to $10,000)

Conversion Eligibility

You may be eligible to convert all or partial amounts from your Traditional, SEP, or SIMPLE[2] IRA into a Roth IRA, regardless of your age[3]. Beginning January 1, 2010, everyone is eligible to convert a Roth IRA.

While there are many issues to consider when contemplating a Roth IRA conversion, here are a few situations where a conversion might be appropriate:

- If your retirement account has dropped in value recently, you can convert to a Roth IRA and pay tax on that value today, thus allowing the future appreciation to be withdrawn tax-free;
- If your tax rate today is less than what you expect it to be in the future, you can convert your Traditional IRA to a Roth and pay taxes now, rather than taking IRA distributions during retirement when you are at a higher tax bracket;
- By converting to a Roth IRA, you can avoid the Required Minimum Distribution (RMD) rules mandated at age 70-½, thereby allowing your account to grow longer, and tax-free.

The value of the Traditional IRA is considered taxable income in the year the Roth conversion takes place. For example, if a Traditional IRA is converted to a Roth IRA in this calendar year (by 12/31), the value of the account will be added to your other taxable income for the year. However, depending on your tax situation, you may be able to delay actually paying the tax until you file your tax return the following April—please consult your tax advisor regarding your specific situation. If you are under age 59-½ when you do the conversion, the 10% additional tax on early retirement plan distributions will not apply.

Estate Planning with a Roth IRA

In addition to the retirement planning benefits, a Roth IRA may be an excellent estate-planning tool. A Roth IRA maintains its tax-free status when passed to an heir, so it is an efficient way to pass retirement assets to the next generation. Also, if you converted an existing IRA to a Roth IRA, you've essentially pre-paid the taxes your heirs would have paid had they inherited the Traditional IRA, which reduces their future tax liability. Finally, the tax you paid on the conversion is money that is no longer in your taxable estate thereby reducing your taxable estate, and saving on estate taxes.

Is the Roth IRA Right for You?

As a general rule, consider the Roth IRA if you don't need the immediate tax deduction, you expect your tax bracket to increase once you are in retirement or you are seeking to leave an income tax-free legacy to your heirs.

Supported by Baird's team of Retirement Plan Specialists, your Baird Financial Advisor can help you review your current plan to determine how a Roth IRA might best suit you.

1 If you did not live with your spouse at any time during the year and you file a separate tax return, your filing status for purposes of determining Roth IRA contribution or conversion eligibility, is single.
2 After a two-year period, beginning on the date on which you first participated in your employer's SIMPLE plan, amounts in a SIMPLE IRA can be rolled over or transferred, without being subject to early distribution penalties, to another retirement plan.
3 If you are over age 70-½, your RMD amounts are not eligible to be converted to a Roth IRA.

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