CORE BANK

PRIVATE CLIENT GROUP

RETIREMENT PLANNING

Is a Roth IRA a good fit for you?

If your retirement planning includes funding a traditional IRA (or 401[k]), congratulations. You're reducing your bill to Uncle Sam in every year you contribute. Great! Right?

Maybe not so great. The flip side of traditional IRAs is that a withdrawal is a taxable event. Whether you think tax rates will be lower or higher when you're retired, the Roth IRA may make sense for you. Until we sit down to discuss it together, here are the basics:

Pay taxes now or later?

If you have an unshakable conviction that your tax bill will be lower in retirement, your decision is easier—in favor of the traditional IRA—but it's still no layup. First, you could be wrong. Even if you're right, your tax savings may not outweigh the other advantages of the Roth (see below).

Let it grow: No withdrawals required, ever

Both traditional and Roth IRAs allow your savings to grow tax-free, and the earnings on those earnings, over time, are the engine of your account's potential growth. But a traditional IRA has strict rules and stiff penalties concerning when you must begin taking withdrawals during your lifetime.

On the other hand, Roth savings can continue growing tax-free over your lifetime. Both traditional and Roth IRAs allow you to continue to contribute after retirement, if you have earned income.

Lighten the tax burden on your heirs

The non-spouse beneficiaries who inherit your Roth IRA may have to take RMDs, with some exceptions, but not for 10 years, and they won't have to pay any federal income tax on their withdrawals as long as the account's been open for at least five years. That allows Roth owners to pass potentially significant assets to their heirs essentially tax-free.

Contribute some—Convert a lot

If you decide a Roth IRA is right for you, you can contribute up to the maximum each year, and you can also convert all or part of your traditional IRA to a Roth account, regardless of your income, with no annual limit.

The rub: You'll pay tax on the conversion amount in the year you make it. Generally, the further you are from retirement, the more likely you are to recoup the value of the tax paid at conversion. But the calculation can be complex. We can help you work out a break-even point.

Gain flexibility for the unforeseen

Roth IRAs allow withdrawals of contributions at any time without penalty. However, because the withdrawals of earnings before age 59½ are treated as taxable income, you may wind up with a tax emergency on top of the initial crisis. Explore other options first.

The Roth IRA decision has plenty of moving parts. Please call to discuss whether you're taking advantage of the benefits it may provide you.

Roth vs. traditional IRAs: A comparison

	Roth IRA	Traditional IRA
Eligibility		
Is there an age limit?	You can contribute earned income to either plan at any age.	
How does my income affect how much I can contribute?	• Contributions can't exceed the amount of income in a tax year. • They can't exceed the IRS-imposed limits (see "**IRA contribution rules**", below). • They could be reduced—or even eliminated—based on your income	Same as for the Roth, but you can always make a partially or fully non-deductible contribution (based on your income).
Can minors or nonworking spouses contribute to an IRA?	Yes, but special rules apply	
IRA contribution rules		
What are the contribution limits?	For the 2020 tax year, for either type of IRA: • If you're under age 50, up to $6,000. • If you're age 50 or older, up to $7,000. Limits could be lower based on your income.	
Can I claim my contribution as a deduction on my tax return?	No.	You may be able to deduct some or all of your traditional IRA contributions.
*What's the deadline for making contributions in a given year?**	The deadline is typically April 15 of the following year.	
IRA withdrawal rules		
*Will I pay ordinary income taxes on withdrawals after age 59½?**	Not on contributions, and not on earnings, either, as long as the plan is at least five years old.	Yes, on earnings and on any contributions you deducted on your tax return.
*Is there a 10% penalty for withdrawals taken before age 59½?**	Only for withdrawals of earnings, but not for contributions.	Yes, on both contributions and earnings.
*Will I have to take RMDs?**	No.	Yes, by April 1 of the year following the year you reach age 72 (age 70½ if you attained age 70½ before 2020).

*These provisions were significantly liberalized for traditional IRAs for tax year 2020 for taxpayers affected by the coronavirus pandemic. See your financial advisor for details.

Please note that tax expectations relate to the overall federal tax landscape as well as your personal tax rate. You should consider your future marginal tax rate, not future income, when thinking about Roth conversions. Because tax brackets may be wide and filing status may change, changes in future income may or may not affect your future marginal tax rate.

This discussion concerns only the federal tax consequences of the strategies described. State laws vary widely and may differ from federal tax laws. Tax discussions are based on current rules and regulations in effect as of the publication date and are subject to change at any time. Investors should consult with their tax advisor before engaging in any transaction that may have tax consequences.

All investing is subject to risk, including the possible loss of the money you invest. We recommend that you consult a tax or financial advisor about your individual situation.

Withdrawals from a Roth IRA are tax free if you are over age 59½ and have held the account for at least five years; withdrawals taken prior to age 59½ or five years may be subject to ordinary income tax or a 10% federal penalty tax, or both. (A separate five-year period applies for each conversion and begins on the first day of the year in which the conversion contribution is made).

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