

## ROTH IRA'S – How to fund a Roth – revised for 2020

By Jim Teeter

A ROTH IRA represents a fantastic savings and accumulation opportunity, but HOW DO YOU get significant monies into them.

Roth contributions have the same limitations as any IRA contribution. For 2020 the limit is \$6,000 if you are under 50 and \$7,000 for age 50 and over. If you have AGI (adjusted gross income) over \$196,00 for married couple filing jointly or \$124,00 single you cannot contribute to a Roth.

Recently a client called and asked about the conversion of an IRA to a Roth IRA. He was motivated by a question on his accountant's Income Tax checklist. The client is 66 and is considering distributions. He has income today of \$65,000 per year and does NOT need additional spendable income. He has accumulated over \$500,000 in his IRA. After researching the tax guides and querying several accountants, I have come to the following conclusion. Traditional IRA conversions to a ROTH IRA after 59 ½ may be the perfect use of a Roth IRA. There are no income limitations for conversions.

Each year in retirement, you should see if a Roth conversion makes sense for you. Between the ages of 65 and 72 is an opportune time for conversion, because you have no Required Minimum Distribution or RMD. In most instances you will be taking partial distributions each year so as not to increase your incremental tax rate. You are required to start taking distributions (RMD) from your traditional IRA at age 72. You have to pay the current income tax on your distribution. After age 72, you may convert to a Roth any amount in excess of the RMD. However, you want to review your current and future tax rate expectations to make sure this makes sense.

The conversion has several upsides:

It reduces future Required Minimum Distributions or RMD from your regular IRA. Retirement distributions made any time after five years from a ROTH opening deposit are tax free. No distribution is required from a ROTH IRA until death.

You must leave the money in the ROTH for five years after opening the account or a penalty is incurred. **If you need liquidity in five years, a conversion may not be beneficial to you.** Each individual's tax situation is different. Therefore, you should consult with your accountant prior to any conversion.

### 401k's

ROTH 401k's are available now. Ask your employer about availability and your accountant about suitability.