

The Roth IRA...The Greatest Thing Since Sliced Bread

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My mother was well known for her prolific use of expressions: “Money doesn’t grow on trees,” and “If wishes were horses, beggars would ride.” Sometimes we knew what she was inferring, but other times her sayings were met with blank looks. As habits pass from mother to daughter, I’ve caught myself saying...what she said. And, if it’s not bad enough that I catch myself, quite frequently, it’s one of my sisters who will chide me...“You sound like mom!” Ugh!

If my mother were alive, she’d hear me referring to a Roth IRA as the greatest thing since sliced bread. Sliced bread was invented in 1912. Eighty five years later, Roth IRAs were invented in 1997. A Roth IRA expanded on traditional Individual Retirement Accounts (IRAs) in that Roth contributions are not tax deductible, but distributions are tax free.

Roth contributions are subject to earning limitations but not age limitations. That means an 18 year old or a 75 year old with earned income can contribute to a Roth. There is no tax on the investment income while it’s growing (just like a traditional IRA). And unlike traditional IRAs, you are not required to take your money out when you turn age 70½. Your beneficiary will need to take distributions if they inherit your Roth IRA, but those can be stretched over their lifetime.

And now for the icing on the cake...when you do take money out, there is no tax on the distribution. There are some rules around taking tax-free distributions. You must be over age 59½, or you will be using the money to buy or rebuild a first home, or you are disabled. And most importantly, it has to be at least five years from the beginning of the year in which you first set up and contributed to a Roth IRA.

Contribution rates are the same for traditional IRAs and Roth IRAs:

- ▶ **If you are under the age of 50, you can contribute \$5,500 per year;**
- ▶ **If you are age 50 and over, you can contribute \$6,500 per year.**



These figures are subject to income limitations and represent the maximum you can contribute. You can always contribute less or set up automatic bank drafts to make investing really easy.

For more bang for the buck, you can convert your IRAs, SEP or SIMPLE IRAs to Roth IRAs. You may also be able to roll over amounts from a qualified retirement plan to a Roth IRA. Converting to a Roth is a little more complicated, but it is worth a look. There may be tax due on converting your IRA to a Roth IRA. Work with an advisor to determine if it makes sense for your situation.

In 1943, sliced bread was banned as a wartime conservation measure. Distraught consumers complained and in the end the ban lasted less than two months. We aren’t sure if Roth IRAs and their special features will be rescinded. But while they’re here, you should strike while the iron is hot.

Mom was right; money doesn’t grow on trees. But, a Roth IRA may just be the acorn you need to change your family tree.

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