A newsletter from Ascential Wealth Advisors

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ROTH IRA STRATEGIES

By Kristin Rognerud

Should I be funding a Roth IRA? This is a very common question, and there is not really an easy, one-size-fits-all answer. The decision on whether to utilize a Roth and the ability to do so are unique to each client. Here we will look at some of the basics of Roth IRAs, and some strategies we have considered with clients regarding this type of account.

ROTH IRA BASICS

A Roth IRA is a retirement savings account which is funded by after-tax contributions. There is not a current tax benefit for funding a Roth, rather the benefit is reaped in the tax-free growth that occurs in the Roth over time.

For 2019, the annual Roth contribution limit is $6,000 plus an additional $1,000 catch-up amount for those over 50, however your contribution amount cannot exceed your earned income.

In order to make the maximum contribution directly to a Roth in 2019, Modified Adjusted Gross Income must be under $122,000 for single persons and $193,000 for married couples.

Contributions (not earnings) are eligible to be withdrawn with no tax or penalty for any reason.

Withdrawals including earnings can be made after age 59 ½ and will be tax and penalty free providing the account has been open and funded for at least 5 years.

Withdrawals including earnings before age 59 ½ may be subject to taxation of earnings and a 10% early withdrawal penalty, with some exceptions:

- If you are deemed totally and permanently disabled you can access funds with no tax or penalty for any reason.
- Certain specific expenses qualify for an exception including (but not limited to):
  - First time home purchase (buy, build, or rebuild up to a $10,000 lifetime maximum.
  - Higher education expenses for the account holder, spouse, children, or grandchildren.
  - Unreimbursed medical expenses greater than 10% of Adjusted Gross Income.
  - Payment for medical insurance premiums after losing a job.

Unlike traditional IRAs, Roth IRAs are not subject to Required Minimum Distributions at age 70 ½, and have no age limit on contributions. Funds can remain in a Roth until death, and be passed on to beneficiaries. Like a traditional IRA however, non-spousal beneficiaries will be required to take minimum distributions.

While participation in an employer plan can make a participant ineligible for a traditional IRA contribution, you may be able to contribute to both an employer plan and a Roth IRA in the same year.

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Am I a good candidate for a Roth?

Given the tax-free growth feature that Roth IRAs offer, those who plan to leave the funds in the Roth for a long period of time typically will benefit the most. This could mean young people with a longer time horizon to retirement, or those who simply have enough funds saved where they will not necessarily need to tap into their Roth funds. In the latter case, the Roth money's tax-free growth can continue into the lives of beneficiaries.

Can I fund a Roth if I make more than the income limit?

The income limitation for Roth contributions makes it difficult for some people to contribute directly to a Roth, however there are a few ways to funnel money into a Roth account regardless of income.

"Roth Conversion"

One way to push funds into a Roth is by converting all or a portion of traditional IRA, SEP IRA, SIMPLE IRA or pre-tax 401k money to a Roth. Before 2010, you could not execute a Roth conversion if your income was over $100,000 or if you were married filing separately. Now there are no limitations on who can convert funds to a Roth, but it is a taxable event. If you have only pre-tax contributions in the IRA account you are converting from, the conversion amount will be 100% taxable as income. If you have only after-tax contributions in the IRA account, only the earnings portion will be taxed as income, and the contributions can convert tax free (this is not very common). However, if you have a mix of pre-tax and after-tax contributions in your IRA, the conversion will be taxed on a pro-rata basis determined by the ratio of contribution types in ALL of your IRA accounts.

Clearly, there are many factors to consider when deciding whether this strategy is appropriate. It is a question of evaluating the taxes you will pay today when converting the funds against the potential long-term benefit. A Roth conversion may be a good choice if you expect to be in a higher income tax bracket in the future, intend to keep the funds in the account for a long period of time, or are looking to have some tax diversification among your retirement assets. The decision to convert funds to a Roth is very specific to each individual's circumstances and we recommend a discussion with us and your tax professional.

"Backdoor Roth"

Another strategy that was recently sanctioned by the Internal Revenue Service is the "backdoor Roth." In this situation, an individual would make an after-tax IRA contribution, and immediately convert it to a Roth IRA. In order for this strategy to work, the individual cannot have any funds in a traditional, SEP, or SIMPLE IRA account, because any funds in those types of accounts will make the Roth conversion taxable on a pro-rata basis. If an individual is interested in this strategy but has an existing IRA account, it may be possible to transfer IRA funds into an employer retirement plan (ie 401k) in order to not have any "IRA money" that would require pro-rata tax treatment. The IRS has not officially ruled on this strategy yet, so it is best to consult with your tax professional prior to any action.

"Roth 401k"

Beginning in 2006, the IRS began allowing participants in employer retirement plans the option of contributing funds to their 401k with Roth IRA type tax treatment. This means that if your employer plan has a Roth provision, you can choose to make salary deferral contributions as Roth (after-tax) or traditional (pre-tax). The annual contribution limit for this is the 401k limit, which in 2019 is $19,000 plus a catch-up contribution of $6,000 for those over age 50. Employer contributions to the plan, whether a match, safe harbor, or profit sharing, will typically be pre-tax not Roth.

Roth IRAs can be a great tool to achieve a variety of financial planning objectives, but the decision on whether to use a Roth IRA can be complex. We look forward to discussing whether any of these strategies are right for you.

DID YOU KNOW?

27% of 1,000 Millenials surveyed in July 2018 spent more money monthly on coffee than they set aside for retirement. (Source: Lendedu.com)

37% of retired Americans report they retired earlier than planned as a result of health problems, buyout packages, layoffs, grandchildren, or caring for an aging parent. (Source: Health and Retirement Study)

Addition to the Ascential Wealth Team

Alex Meehan
Branch Associate

We are pleased to announce the addition of Alex Meehan to the Ascential Wealth team. Alex joined the practice in April and we are happy to have him in the office.

What did you do prior to AWA?

Prior to joining the practice, I graduated from Minnesota State University – Mankato with a major in finance. In college, I was introduced to the industry through a professional organization and was immediately interested. I have spent the last three years in Minneapolis working for another independent advisory practice where I was able to gain hands-on experience with financial planning and further my education on the subject.

Why AWA?

Early on, it was clear to me that this was a group of people who care deeply about the success of their clients. Their collaborative approach signaled to me that I was joining a team made up of unique skills and backgrounds that offer each situation a well-thought-out resolution. I am excited to be a part of the office and look forward to meeting some of you during your next visit.

What do you like to do outside of AWA?

My fiancé Sara and I are both from Superior, WI and are excited to be back in the area. We are currently planning a wedding and looking for a new home in Duluth; which means we will have a busy summer. In my free time, I enjoy playing a round of golf, cooking with Sara, and bird hunting in the fall.

New! Account Aggregation

By Mike Owens

There is a new feature in Raymond James Client Access which allows you to connect accounts at other financial institutions so you can view them when you log in to your Raymond James account online. You can connect both asset and liability accounts that are not held at Raymond James, such as bank accounts, employer retirement plans, mortgages, and credit cards, so that the account data is automatically updated daily.

Account aggregation offers you an easy, comprehensive financial picture. It also provides us real-time updates on external accounts, which means no need to send statements when we are updating your financial plan or giving you advice on rebalancing those accounts.

Adding external accounts for the first time

1. Log in to Raymond James Client Access.
2. On the My Accounts > Summary screen, click the **Add/Edit External Account link**.
3. Review & accept the Terms and Conditions and click **Next**.
4. Follow the **Add Accounts wizard** to search for and select a financial institution you wish to add (not all institutions participate).
5. Enter your login credentials for the selected financial institution, click **Next** and you should see your account(s) at that institution.
   Note: there may be a slight delay before the external accounts appear on the Summary Screen.

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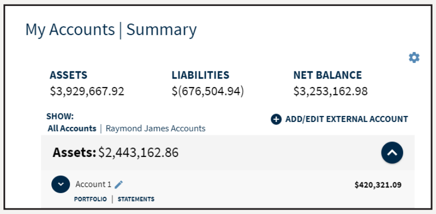
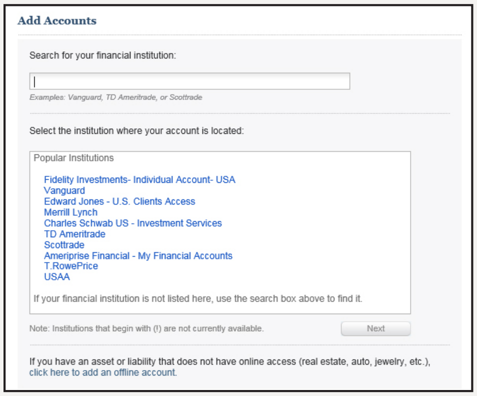
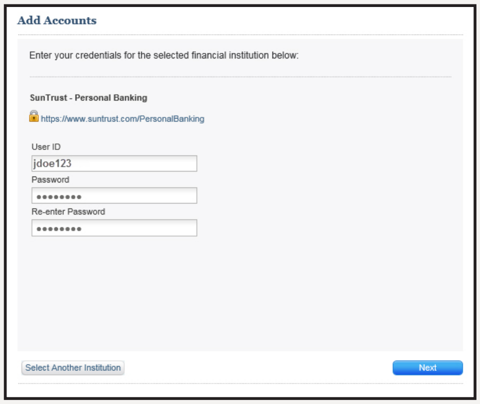
Mike Owens
Financial Advisor

Follow the given steps for adding accounts and see the images provided below for account access. If you have any trouble getting external accounts connected, or if you are not already signed up for Raymond James Client Access, let us know and we can help you enroll.







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