

## Is it good for your plan?

### Answering your questions about the Roth IRA

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These days, most people know that saving for retirement is a personal responsibility and a necessity. One versatile savings alternative that offers a variety of tax benefits is the Roth IRA. The Roth IRA differs from the traditional IRA in several important ways. Many individuals, however, are still a bit unsure as to how the Roth IRA might fit into their overall financial plan. With this in mind, here's a quick review of this versatile retirement savings vehicle.

#### Who is eligible?

At first glance, the biggest advantage of a Roth IRA appears to be that contributions and earnings can be withdrawn free of income taxes. Unlike a traditional, deductible Individual Retirement Account (IRA),



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contributions to a Roth IRA are made on an after-tax basis. As a result, no income tax is due when distributions are taken from Roth IRAs.

You're eligible to make a full contribution to a Roth IRA if your adjusted gross income (AGI) does not exceed \$95,000 for single taxpayers or \$150,000 for married taxpayers filing jointly (contributions to a Roth IRA are phased out for single filers with AGIs between \$95,000 and \$110,000 and for joint filers with AGIs between \$150,000 and \$160,000).

You also can contribute to a Roth even if you are a participant in a 401(k) or other employer-sponsored qualified retirement plan. However, please note that contributions to a Roth IRA may be

limited if you are also contributing to a traditional IRA. Combined contributions for Roth IRAs and traditional IRAs may not exceed \$4,000 in 2005.

#### The Roth IRA benefits

You can withdraw contributions and earnings from a Roth IRA free of income taxes after the account has existed for five years and when you reach age 59½. If you take withdrawals prior to age 59½, you may be subject to a 10 percent federal income tax penalty. However, certain situations qualify as exceptions, such as early withdrawals made to pay for first-time home purchases or qualified education expenses.

#### Should you add A Roth IRA?

You'll need to carefully analyze your own unique situation to determine if there are any long-term benefits to using a Roth IRA as opposed to an expanded deductible IRA.

The Roth IRA appears to be of greatest benefit if you are a participant in a qualified plan (such as a 401(k)) and your AGI exceeds the expanded deductible IRA income limits (\$50,000 to \$60,000 for single taxpayers and \$70,000 to \$80,000 for married taxpayers filing jointly for the 2005 tax year), but you do not exceed the income limits for a Roth IRA.

In addition, you may also benefit if you are setting money aside for the purchase of a first home.

#### Converting IRAs to Roths

Traditional IRAs can be converted into Roth IRAs as long as your AGI (adjusted gross income) does not exceed \$100,000. However, rolling your traditional IRA into a Roth IRA does come with a price. Any deferred income

taxes from your existing IRA (the one you will be converting) will be due in the tax year in which the conversion occurs. In addition, paying income taxes from the existing IRA proceeds at the time of the Roth conversion will be considered an early withdrawal if made prior to age 59½ and may be subject to a 10 percent federal income tax penalty. Therefore, if you are younger than age 59½, you will need to pay a potentially substantial income tax from out-of-pocket sources to avoid the 10% penalty tax.

#### Before you convert ...

If you're thinking about converting an existing IRA into a Roth, be sure you seriously consider the following:

1. When you expect to need the IRA proceeds;
2. Your ability to pay the income tax due in the year of conversion from an alternative source;
3. Whether the additional tax incurred at the time of conversion will place you in a higher tax bracket, which could result in a greater than expected income tax liability; and
4. Whether or not converting will benefit your long-term bottom line.

#### Other positive considerations

In addition to tax-free withdrawals, two of the more intriguing features of a Roth IRA are that: 1 – there are no Internal Revenue Service (IRS) restrictions on when you must begin taking withdrawals (e.g., age 70½ with traditional IRAs); and 2 – you can continue to contribute to a Roth beyond age 70½ if you have earned income.

Over the long term, this can lead to the potential for significant additional savings, especially if you plan to work

past age 70½ or if you have other sources of retirement income and do not expect to rely heavily on your Roth IRA for income.

#### Your heirs may benefit, too

As an added benefit, your Roth IRA beneficiary may also continue to enjoy the benefits of tax-free withdrawals over his or her life expectancy, as long as withdrawals commence before December 31st of the year after your death. (Note: If your beneficiary does not begin taking withdrawals by December 31st of the year after your death, the entire Roth IRA proceeds must be withdrawn by December 31st of the fifth anniversary of your death.)

#### Making good choices

The Roth IRA provides you, the taxpayer, with yet another retirement savings mechanism. However, it is important to keep in mind that the Roth IRA may not be for everyone and does not serve as a replacement for a traditional IRA in many circumstances. On the flip side, it does offer savings and tax benefits for a number of individuals in the upper middle-income ranges. A thorough review of your overall retirement plan can help you determine how a Roth IRA might fit into your financial future.

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