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7 Reasons a Roth IRA May Be a Good Idea for You or Someone You Love

It's almost tax time. During April, many people take advantage of the opportunity to reduce taxes by funding a Traditional IRA. While that makes sense for some Americans, others may benefit by contributing to a Roth IRA that offers no immediate tax break, but has other tax advantages, such as tax-free growth potential and tax-free income during retirement. Some people may realize the greatest benefit by having both types of IRAs.

Unfortunately, IRS contribution rules limit investors, who are younger than age 50, to making contributions of just $5,500 to all IRA accounts during 2015 and 2016. If you're age 50 or older, you can save $6,500.[1] Before making a 2015 contribution, consider the advantages of Roth IRAs, including:

1. **Tax-free growth potential.** You won't get a tax break today, but any earnings in a Roth IRA growth tax-free.[2]

2. **Tax-free income.** Distributions taken from a Roth IRA are tax-free, too, as long as certain requirements are met*.[3] That means the income from your Roth IRA is protected from future tax increases.[2]

3. **No required minimum distributions.** You can leave the money in your Roth IRA until your heirs inherit it. You can't do that with a Traditional IRA. At age 70½, you must take required minimum distributions (RMDs) from Traditional IRAs. Generally, RMDs are taxable and, if an RMD is not taken when it should be, a hefty penalty is assessed.[4]

4. **Penalty-free early distributions.** You don't have to be age 59½ to take a penalty-free distribution from a Roth IRA as long as the distributions are used for higher education costs, qualified home purchases, unreimbursed medical expenses, or specific other expenditures.[3]

5. **Improved tax diversification.** When a portfolio is 'tax-diversified,' it includes taxable, tax-deferred, and tax-free accounts. Different types of accounts offer different kinds of benefits. For example:[5]

    - *Taxable accounts* offer immediate access to funds. Money that is saved or invested in taxable accounts – like brokerage or banks accounts – have already been taxed and can be spent at any time.
    - *Tax-deferred accounts* offer tax breaks today. For instance, contributions to 401(k) and 403(b) plan accounts are made with before-tax money so the contributions are not included in taxable income today. The downside is IRS penalties may be assessed if the money in these plans is distributed before retirement. (Another potential benefit of tax-deferred accounts is employer-matching contributions, which can help you accumulate retirement assets more quickly.)
    - *Tax-free accounts* offer a tax break in the future. For example, contributions to a Roth

IRA are made with after-tax dollars but any earnings grow tax-free and distributions may be tax-free. Having tax-free income during retirement may help you stay in a lower tax bracket.

6. **Open an account at any age.** Anyone, of any age, who has earned income, can open a Roth IRA. So, you can fund a Roth IRA for yourself any time. You can also fund one for a child or grandchild who works, and give him or her a head start on saving for retirement.[6]

7. **Contribute as long as you work.** While contributions to Traditional IRAs must stop at age 70½ (when RMDs begin), that is not the case with Roth IRAs. As a result, Roth IRAs provide legacy and estate planning advantages Traditional IRAs do not.[7]

If you're planning to open or fund an IRA before April 15 for yourself or someone you love, and you're not certain whether a Traditional or Roth IRA is the right choice, talk with your financial professional. He or she can review your portfolio and help determine which may best suit your needs.

*In general, a distribution from a Roth IRA is tax-free and penalty-free, as long as the account has been open for five years and the account owner is age 59½, has become disabled, is making a qualified first-time home purchase ($10,000 lifetime limit), or dies. Minimum required distributions do not apply to the original account owner, although they may apply to heirs.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

There are hypothetical examples provided and they are not representative of any specific investment or scenario.

Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply.

This is not intended to be a substitute for specific individualized tax advice. We suggest you discuss your specific tax issues with a qualified tax advisor.

Sources:
[1] https://www.irs.gov/Retirement-Plans/Plan-Participant,-Employee/Retirement-Topics-IRA-Contribution-Limits
[2] http://www.bankrate.com/finance/retirement/traditional-ira-vs-roth-ira-1.aspx
[3] https://www.irs.gov/publications/p590b/ch02.html
[4] https://www.irs.gov/Retirement-Plans/Retirement-Plans-FAQs-regarding-Required-Minimum-Distributions
[5] http://money.usnews.com/money/retirement/articles/2014/09/15/how-to-add-tax-diversification-to-your-retirement-investments
[6] http://www.rothira.com/what-is-a-Roth-IRA
[7] http://time.com/money/4193253/kiddie-roth-ira-child-retirement-savings/