

got roth ira?



Nancy D. McKee, CFP® •  Allegheny Financial Group • December 2011

Roth IRA: Better Than Sliced Bread

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, 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!” Agh!

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 and distributions are tax free.

Anyone who has earned income can contribute to a Roth IRA. There are no 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 59 ½, 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 \$5,000 per year
- If you are age 50 and over, you can contribute \$6,000 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 irons 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.

*If you don’t - you should
Tax-Free and Flexible*

As 2011 comes to a close, now is a great time to make your Roth IRA or IRA contribution. You have until April 15th 2012 to make your 2011 contribution. Contact me to facilitate this.

Retirement Limits

2012 Limits for Retirement Contributions

401(k), 403(b), 457(b) and SAR-SEPS	Lesser of \$17,000 or 100% of participant's compensation
401(k), 403(b), 457(b) and SAR-SEPS - "Catch up" for individuals over age 50	\$5,500
SIMPLE 401(k) plan and SIMPLE IRA plans	Lesser of \$11,500 or 100% of participant's compensation
SIMPLE 401(k) plan and SIMPLE IRA plans - "Catch up" for individuals over age 50	\$2,500
Traditional IRAs	Lesser of \$5,000 or 100% of earned income
Roth IRAs	Lesser of \$5,000 or 100% of earned income
IRAs (traditional and Roth) - "Catch up" for individuals over age 50	\$1,000

Deductibility of Traditional IRAs

Income phase out range for determining deductibility covered by employer-sponsored plan and filing as:

Single	\$58,000 - \$68,000
Married filing jointly	\$92,000 - \$112,000
Married filing separately	\$0 - \$10,000
Not covered by an employer-sponsored plan, but filing joint with a spouse who is covered by an employer-sponsored retirement plan	\$173,000 - \$183,000

Roth IRA Compensation Limits

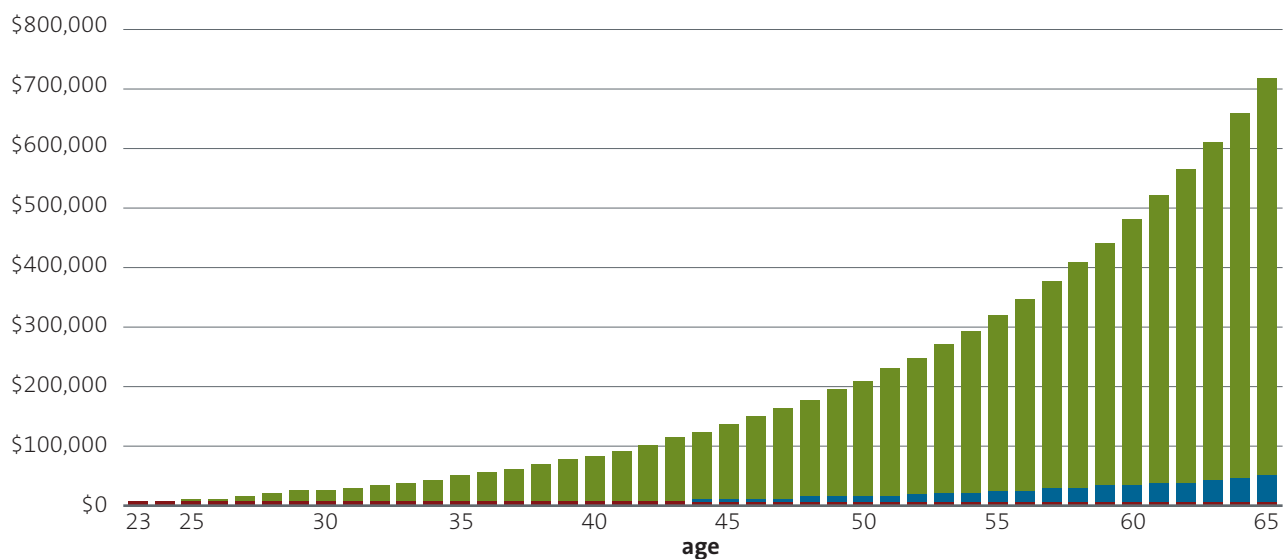
Income phase out range for determining ability to fund Roth IRA

Single	\$110,000 - \$125,000
Married filing jointly	\$173,000 - \$183,000
Married filing separately	\$0 - \$10,000
Annual income limit for determining ability to convert traditional IRA to Roth IRA	\$100,000

Annual gift exclusion for 2012 \$13,000

Growth of a Roth IRA Prepared for a Young Adult

\$2,000 annual contributions • **growth at 8%** • **balance = \$659,166**



Your referral is my greatest compliment. Thank you for your trust and confidence.

Nancy D. McKee, CFP® • Allegheny Financial Group • 811 Camp Horne Road, Suite 100, Pittsburgh, PA 15237 • 412 536 8023
 nmckee@alleghenyfinancial.com • alleghenyfinancial.com/mckee

Past performance is not a guarantee of future results. Any mention of specific investments is not intended to be an offer of sale. Securities offered through Allegheny Investments, Ltd., member FINRA/SIPC.