Demystifying Roth IRAs: A Two-Part Course

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Welcome & Course Overview

Course Goal

To achieve a comprehensive understanding of the tax mechanics, funding rules, withdrawal strategies, and advanced uses of the Roth IRA.

Week 1 Agenda

We will cover the absolute fundamentals: what a Roth is, how it differs from a Traditional IRA, contribution rules, and withdrawal mechanics.

Week 2 Agenda

We will explore advanced topics highly relevant to your financial position, including Roth conversions, backdoor strategies, and estate planning implications.

Class Slides / Case Studies

https://eksassociates.com/welcome-students-demystifying-roth-iras/

What is an IRA? The Basics

An IRA, or Individual Retirement Arrangement, is a personal savings plan that provides tax advantages for setting aside money for retirement.

IRA (Individual)

- Opened by an individual.
- Not tied to an employer.
- You choose the financial institution.
- Contribution limits are generally lower.

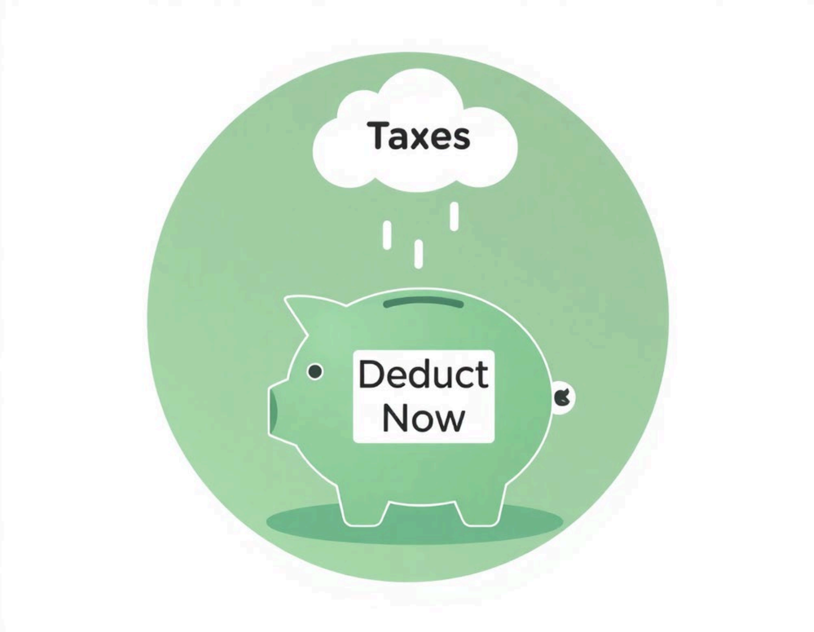
401(k) (Employer-Sponsored)

- Offered through an employer.
- Investment options may be limited.
- Often includes an employer match.
- Much higher contribution limits.

Traditional IRA vs. Roth IRA: The Key Difference

The core distinction comes down to one simple question: Do you want to pay the taxes now or later?

Traditional IRA: Tax Me Later



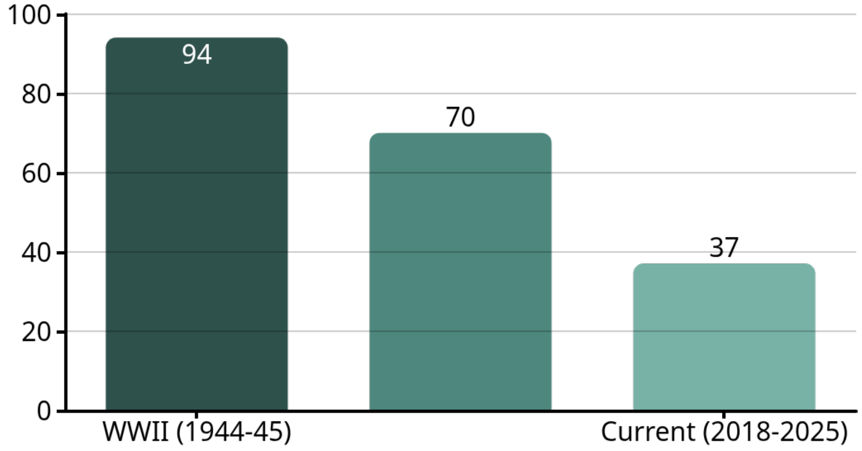
- Contributions may be tax-deductible now.
- Money grows tax-deferred.
- Withdrawals in retirement are taxed as ordinary income.

Roth IRA: Tax Me Now

- Contributions are made with after-tax dollars (no deduction).
- Money grows completely tax-free.
- Qualified withdrawals in retirement are 100% tax-free.

The Tax Rate Environment: Why Roth Now?

Today's federal income tax rates are near historic lows. This presents a unique strategic opportunity: pay taxes now on your retirement savings at a potentially lower rate than you might face in the future.



The Implication

Choosing a Roth IRA acts as a hedge against the risk of higher future tax rates. By paying taxes today, you secure a tax-free income stream in retirement, regardless of how high rates may climb.

Roth vs. Traditional: The Breakeven Scenario

If your tax bracket remains the same from your contribution years to your retirement years, the final spendable amount is mathematically identical. The choice hinges on your prediction of future tax rates.

Traditional IRA

You get a tax deduction now. Your money grows tax-deferred, and you pay taxes on withdrawals in retirement.

- Contribute $1,000 (pre-tax)
- Save $250 in taxes today (at 25%)
- Grows to $4,000
- Pay $1,000 tax on withdrawal (at 25%)
- Net Spendable: $3,000

Roth IRA

You contribute with after-tax dollars. Your money grows tax-free, and all qualified withdrawals in retirement are tax-free.

- Contribute $750 (after-tax)
- Pay $250 in taxes today (at 25%)
- Grows to $3,000
- Pay $0 tax on withdrawal
- Net Spendable: $3,000

The Roth IRA: The 'Magic' of Tax-Free Growth

The primary allure of the Roth IRA isn't just tax-free withdrawals of what you put in, but tax-free withdrawal of all the earnings it generates over decades. This is one of the most powerful wealth-building tools granted by the tax code.

Funding a Roth IRA: The Earned Income Rule

To contribute to a Roth IRA, you or your spouse must have 'earned income.' Not all income qualifies.

What Counts as Earned Income

Wages, salaries, commissions, bonuses, tips, and net earnings from self-employment. Essentially, money you worked for in the current year.

What Does NOT Count

Interest, dividends, capital gains, rental income (passive), pension payments, Social Security benefits, or deferred compensation.

Maximum Annual Contribution Limits

The IRS sets annual limits on how much you can contribute. For this audience, the 'catch-up' provision is particularly important.

Standard Contribution (Under 50)

For 2026, the limit is $7,500.

Catch-Up Contribution (Age 50+)

An additional $1,100 is allowed for a total of $8,600.

The 'Phase-Out': Income Limits for Contributions

The ability to contribute directly to a Roth IRA is phased out and eventually eliminated for high-income earners. This is based on your Modified Adjusted Gross Income (MAGI).

2026 MAGI Phase-Out Ranges (Example Numbers)

Filing Status	Phase-Out Starts	Ineligible Above
Single	$153,000	$168,000
Married Filing Jointly	$242,000	$252,000

If your MAGI falls within the range, your contribution is reduced. If it's above the range, you cannot contribute directly. (We will discuss a workaround for this later).

Example 1: Contribution Eligibility

Let's see how the phase-out works in practice.

1 **Scenario**

A single filer, age 40, has a Modified Adjusted Gross Income (MAGI) of $157,000. The phase-out range for a single filer is $153,000 - $168,000, a $15,000 wide range.

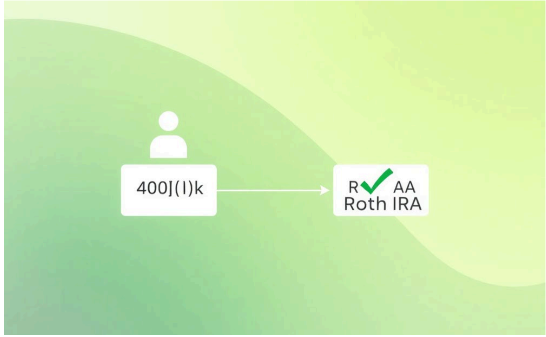
2 **Calculation**

Their income is $4,000 into the $15,000 range. We calculate the reduction: ($4,000 / $15,000) = ~26.7% reduction. The maximum contribution of $7,500 is reduced by this percentage which is $2,002.

3 **Key Takeaway**

Being 'in the range' doesn't mean you're fully excluded, but it does require a calculation to determine your specific limit.

Debunking Common Roth IRA Misconceptions



Myth: I can't have a Roth if I have a 401(k).

Fact: You can. Participation in a workplace plan only affects the deductibility of a Traditional IRA contribution, not your ability to contribute to a Roth.

Myth: The money is locked up until age 59 ½.

Fact: You can withdraw your direct contributions (the principal) at any time, for any reason, completely tax-free and penalty-free.

Myth: A Roth IRA is an investment.

Fact: It is a tax-advantaged account container. You must choose investments like funds, stocks, or bonds to hold inside the account.

MAGI Strategy 1: Maximize 401(k) / 403(b) Contributions

The most direct way to lower your Modified Adjusted Gross Income (MAGI) is to increase contributions to tax-deductible workplace retirement plans. Every dollar you contribute reduces your MAGI by one dollar.

Example

If your MAGI is $10,000 over the Roth contribution limit, increasing your pre-tax 401(k) contribution by $10,000 will lower your MAGI by the same amount, potentially restoring your full Roth eligibility.

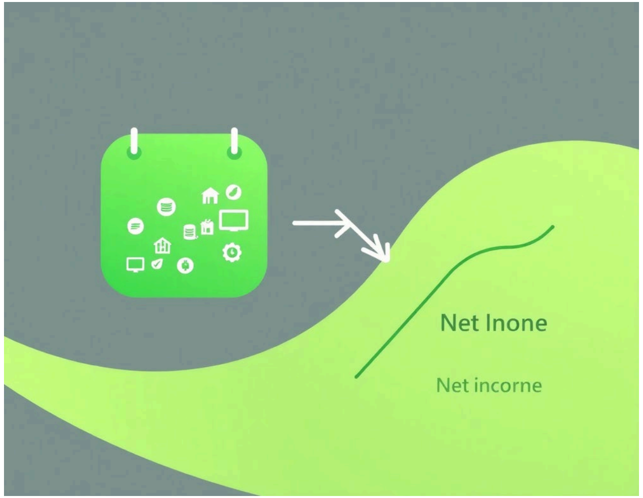
MAGI Strategy 2: Increase Deferred Compensation

For eligible employees, a non-qualified deferred compensation (NQDC) plan is a powerful tool. By electing to defer a portion of your salary or bonus, that income is not included in your current year's MAGI.

Example

An executive participates in a deferred compensation plan and elects to defer a larger portion of their annual bonus. This income is not included in current-year MAGI, creating headroom for Roth contributions.

MAGI Strategy 3: Prepay Business Expenses



Self-employed individuals (Schedule C filers) can manage their MAGI at year-end by prepaying up to a year of certain business expenses to reduce the current year's net business income.

Example

A self-employed business owner prepays for a year's worth of software subscriptions, professional dues, and office rent in December. This reduces their current year's net income, directly lowering their MAGI.

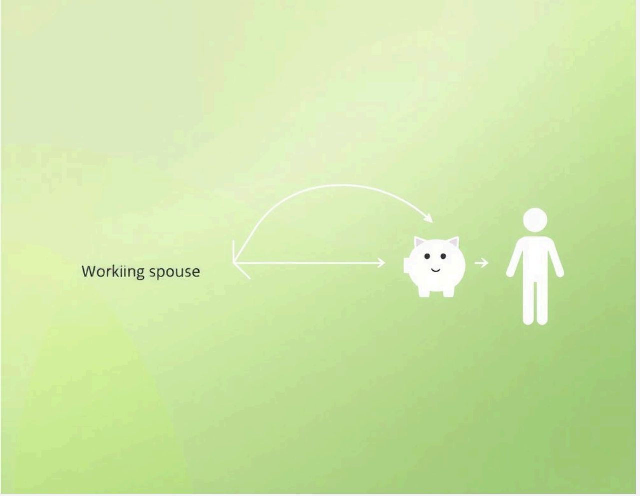
MAGI Strategy 4: The Backdoor Roth IRA

This advanced strategy is used when your MAGI is too high to contribute directly. It involves contributing to a non-deductible Traditional IRA and immediately converting it to a Roth.

Coming Soon!

This powerful technique involves specific rules and steps which will be covered in detail in Week 2.

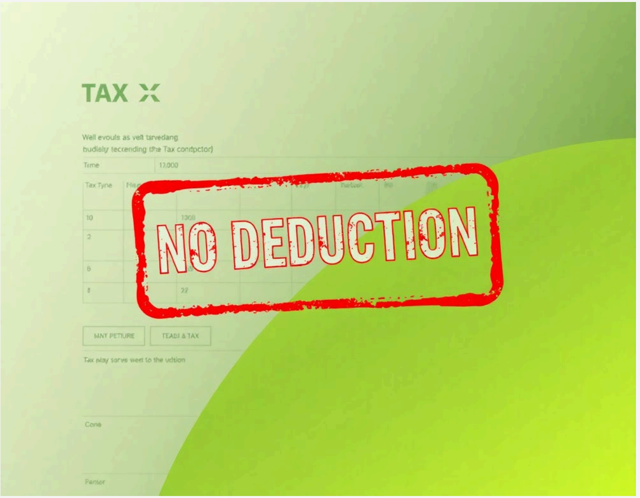
The Spousal Roth IRA Rule



This powerful rule allows a non-working or low-earning spouse to have their own Roth IRA, funded by the working spouse's income. It is a crucial tool for couples to maximize retirement savings.

- You must file taxes as 'Married Filing Jointly'.
- The working spouse must have enough earned income to cover both contributions.

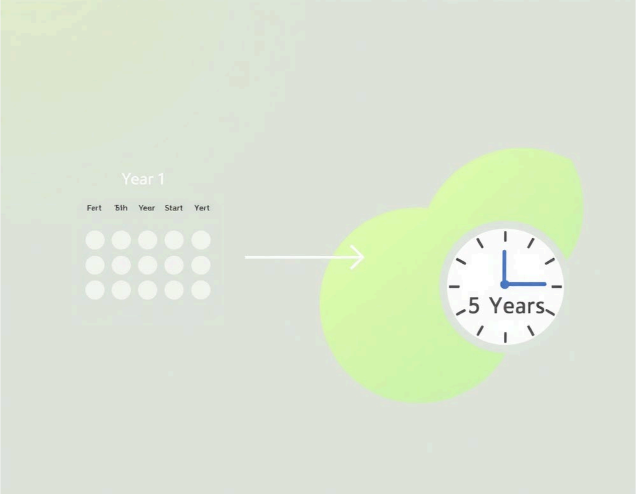
Taxation on Contributions



This is a simple but critical point to remember. Because the benefit of a Roth IRA is on the back end (tax-free withdrawals), there is no immediate tax benefit for contributing.

- Contributions are made with money you've already paid taxes on.
- You do not get to deduct your Roth IRA contributions from your current year's income.

The 'Five-Year Clock' for Earnings

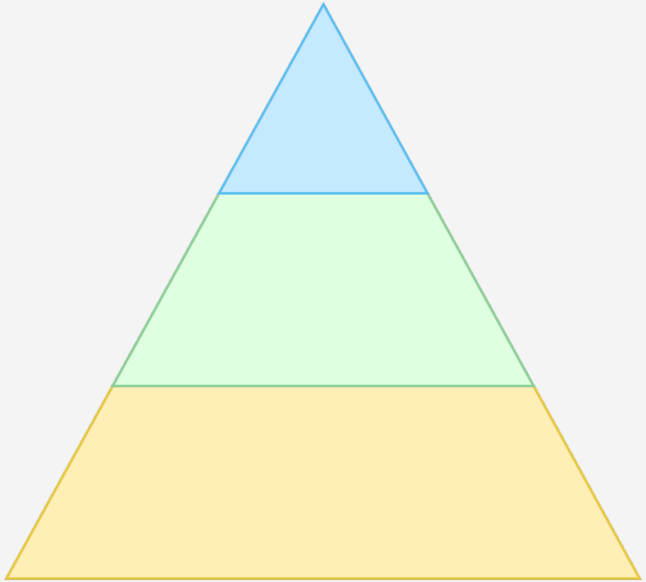


To withdraw your **earnings** tax-free, you must satisfy a 5-year waiting period. This is one of the most important rules to understand.

- The clock starts on January 1st of the tax year for which you made your **very first** contribution to **any** Roth IRA.
- Even if you contribute on April 15, 2026 for the 2025 tax year, the clock starts on January 1, 2025.
- This is a one-time clock for all your Roth IRAs. Once it's met, it's met for good.

Withdrawals: The 'Ordering Rules'

When you take money out, the IRS considers it to come out in a specific, beneficial order. This provides incredible flexibility.



3. Earnings

2. Converted Amounts

1. Direct Contributions

You always have access to your direct contributions first, which are always tax and penalty-free.

Qualified vs. Non-Qualified Withdrawals

For a withdrawal of **earnings** to be completely tax and penalty-free, it must be 'Qualified'.

Qualified Distribution Formula

Requirements

- **Condition 1**: The 5-Year Clock for earnings must be met.
- **Condition 2**: You must meet one of the following:
- – Be age 59½ or older
- – Be permanently disabled
- – Use for a first-time home purchase ($10k limit)
- – The withdrawal is made by a beneficiary after your death.

Penalties for Non-Qualified Withdrawals

If you withdraw **earnings** before the distribution is 'Qualified', that portion of the withdrawal faces a double hit.

1. Ordinary Income Tax

The earnings are added to your income for the year and taxed at your marginal tax rate.

2. 10% Early Withdrawal Penalty

An additional 10% penalty is applied to the earnings portion if you are under age 59½.

Example 2: Penalty-Free Access to Contributions

Scenario

An individual, age 35, has contributed $20,000 to their Roth IRA over several years. The account has grown to $30,000. They face a major car repair and need to withdraw $5,000.

Explanation

Because of the ordering rules, the IRS considers the first dollars out to be a return of direct contributions. Since they have contributed $20,000, the full $5,000 withdrawal is considered part of that contribution basis.

Result: $0 Tax, $0 Penalty

The withdrawal is completely tax and penalty-free. They can access their own contributions at any time, for any reason, without consequence. This provides fantastic flexibility.

Example 3: Taxing Non-Qualified Earnings

Scenario

An individual, age 45, has met their 5-year clock. Their account contains $50,000 in contributions and $15,000 in earnings. They withdraw their entire contribution basis ($50k) plus an additional $5,000, for a total of $55,000.

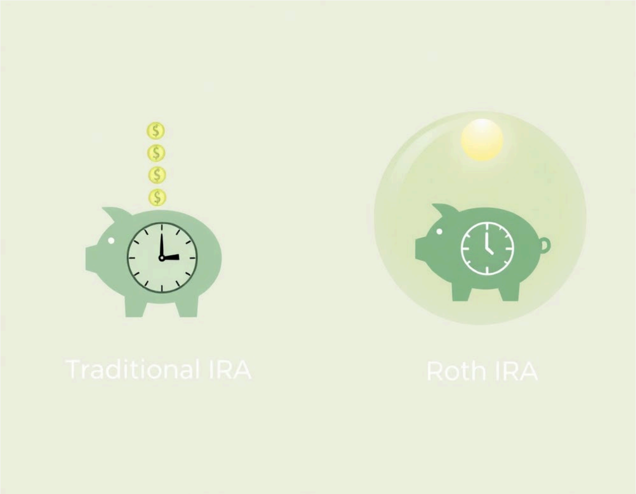
Explanation

The first $50,000 is a tax/penalty-free return of contributions. The next $5,000 is a withdrawal of earnings. Because the owner is under 59½, this is a non-qualified withdrawal of earnings.

Result: Taxes and Penalties Apply

The $5,000 earnings portion will be subject to ordinary income tax PLUS a 10% early withdrawal penalty ($500).

Key Advantage: No Required Minimum Distributions (RMDs)



Unlike Traditional IRAs and 401(k)s, the original owner of a Roth IRA is NEVER forced to take distributions. This is a significant benefit for estate planning and continued tax-free growth.

- Your money can continue to grow, 100% tax-free, for your entire lifetime.
- You control when and if you take withdrawals, not the IRS.
- This maximizes the potential inheritance for your beneficiaries.

The Roth IRA as a Powerful Estate Planning Tool

Because there are no RMDs for you and withdrawals are tax-free for your heirs, a Roth IRA can be one of the most valuable assets you pass on.

1

Tax-Free Inheritance

Your non-spouse beneficiaries inherit the Roth IRA and can take distributions completely tax-free.

2

The 10-Year Rule

Under the SECURE Act, most non-spouse beneficiaries must deplete the inherited IRA account within 10 years of the original owner's death. However, all their withdrawals are tax-free.

3

Legacy Building

You are effectively passing on a pot of tax-free money, preserving more of your wealth for the next generation compared to a tax-deferred account.

The Decision Point: Roth vs. Traditional

The choice boils down to a strategic bet on your future tax situation.

Choose Traditional If...

- You believe your tax rate will be **LOWER** in retirement.
- You need the tax deduction today to lower your current taxable income.
- You want to maximize your tax-deferred savings space.

Choose Roth If...

- You believe your tax rate will be **HIGHER** in retirement.
- You want tax diversification and certainty about future tax bills.
- You want to avoid RMDs and maximize your estate for heirs.

Who Should Choose a Roth IRA?

A Roth IRA is not just for the young. It offers compelling advantages for savvy investors at every stage of life.

Those Expecting Higher Future Taxes

The classic case. If you anticipate being in a higher tax bracket in retirement, paying the tax now at a lower rate is a winning move.

Those Who Value Flexibility

The ability to withdraw contributions at any time without penalty provides an emergency fund feature that other retirement accounts lack.

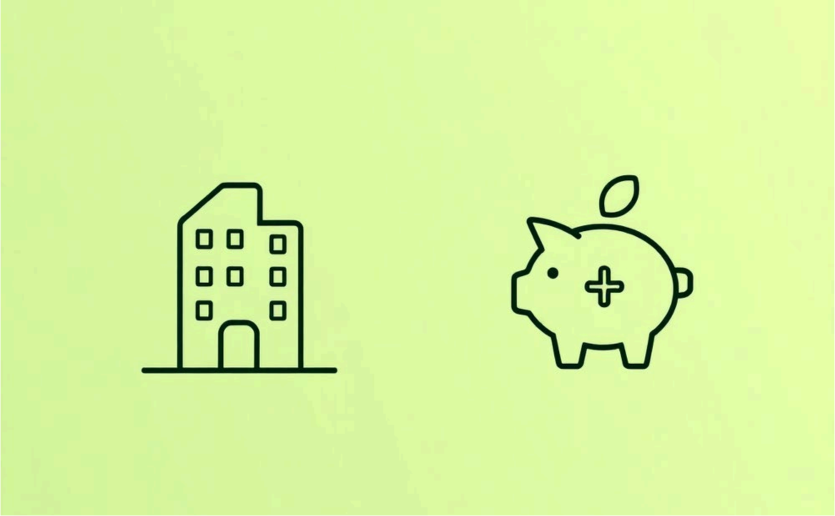
Those Focused on Estate Planning

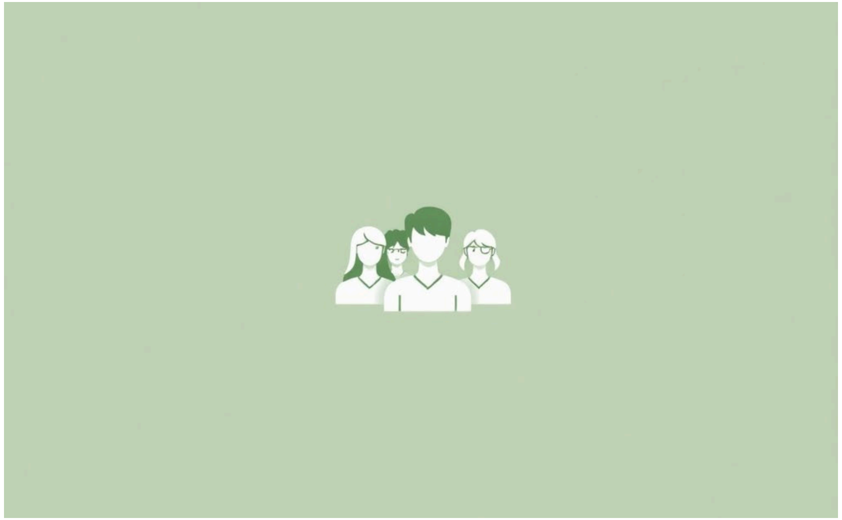
For individuals who may not need the money themselves, the combination of no RMDs and tax-free withdrawals for heirs is unmatched.

Those Seeking Tax Diversification

Having funds in tax-free, tax-deferred, and taxable accounts gives you maximum control over your taxable income in retirement.

Roth 401(k)





What It Is

An employer-sponsored 401(k) plan that allows employees to make after-tax (Roth) contributions directly from their salary.

Who It's For

Employees whose company offers a 401(k) plan and has specifically enabled the Roth contribution option.

Specialized Roth Accounts for Business Owners

Roth Solo 401(k)

- For freelancers, consultants, and sole proprietors with no employees (spouse permitted).
- Note: Only employee contributions can be Roth; employer profit-sharing remains pre-tax.

Roth SEP IRA

- For self-employed individuals and small-business owners seeking high contribution limits.
- SECURE 2.0 allows employer contributions to be made on an after-tax (Roth) basis.

Roth SIMPLE IRA for Small Businesses

What It Is

A Savings Incentive Match Plan for Employees (SIMPLE) IRA, designed for businesses with 100 or fewer employees.

SECURE 2.0 Change

The new act allows employees to designate their salary deferral contributions as after-tax (Roth).

Who It's For

Small businesses looking for a straightforward, low-cost retirement plan for their employees.

SECURE 2.0: Mandatory Roth Catch-Up Contributions

Starting in 2026, a new rule applies for high-earning employees who are 50 or older.

What is Happening

All catch-up contributions for certain high-wage employees must be made on an after-tax (Roth) basis.

Who It Affects

Employees aged 50+ whose prior-year FICA wages exceeded $150,000 (as indexed).

Effective Date

Tax years beginning after December 31, 2025.

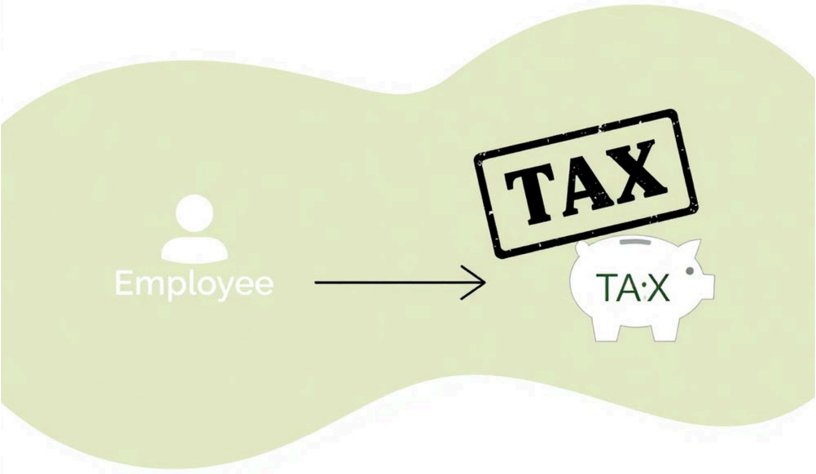
SECURE 2.0: Optional Roth Employer Contributions

The New Option

Employers now have the option to make their matching or non-elective contributions on a Roth basis.

Effective Date

This change is effective immediately, as of the act's enactment in 2023.



Crucial Tax Impact

If an employer makes a Roth contribution, the amount is included in the employee's gross income and is taxable in the year the contribution is made.

Summary: Key Account Types

Account Type	Primarily For	Key Feature
Roth 401(k)	Employees at larger companies	After-tax salary contributions
Roth Solo 401(k)	Self-employed, no employees	Roth option for employee portion
Roth SEP IRA	Self-employed, small businesses	Roth option for employer contributions
Roth SIMPLE IRA	Small businesses (<=100 employees)	Roth option for employee contributions

Roth IRA vs. Roth 401(k)

Many employer plans now offer a Roth 401(k) option. It shares the same tax-free growth principle but has different rules.

Feature	Roth IRA	Roth 401(k)
Contribution Limit (2026)	\$7,500 + \$1,100 catch-up	\$24,500 + \$8,000 catch-up age 50-59, 64 +
Income Limits	Yes, direct contributions are limited by MAGI.	No, high earners can contribute directly.
Employer Match	No	Yes (–Pretax or Roth) –Mandatory Roth for High Wage Earners
Investment Choice	Nearly unlimited	Limited to plan options
Withdrawals	Contributions accessible anytime	Stricter rules, requires separation from service or upon reaching age 59.5

Week 1 Review & Homework

Key Takeaways from Week 1

- Roth = Pay tax now, enjoy tax-free growth and withdrawals later.
- Contributions are always accessible tax/penalty-free.
- Earnings require the 5-year clock + a qualifying reason to be tax-free.
- No RMDs for the original owner is a major planning advantage.

Optional Homework

Before next week, take a look at your most recent tax return and try to estimate your current Modified Adjusted Gross Income (MAGI). This will be crucial for understanding the advanced strategies we'll discuss.

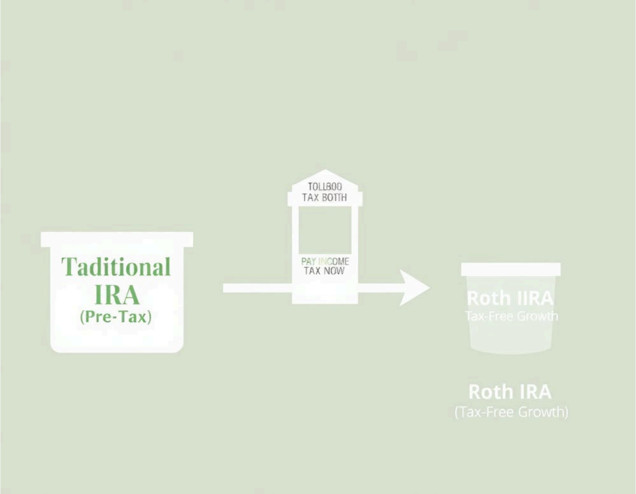
Welcome to Week 2: Advanced Roth Strategies

Quick Review of Week 1

- We established the fundamental trade-off: **Pay tax now (Roth)** vs. **Pay tax later (Traditional)**.
- We learned the ordering rules: **Contributions** come out first (always free), then **Conversions**, then **Earnings**.
- We highlighted the power of **tax-free growth** and the absence of **RMDs** for the original owner.

Tonight, we focus on how to move existing retirement funds into a Roth IRA and the powerful strategies this enables.

Roth Conversions: What and Why



A Roth conversion is the process of moving funds from a pre-tax retirement account (like a Traditional IRA, 401(k), 403(b)) into a Roth IRA. You are essentially taking a future tax problem and solving it today.

The Crucial Point: The converted amount is fully taxable as ordinary income in the year you make the conversion.

The Tax Cost of a Conversion

The core of the conversion strategy is a deliberate choice to pay taxes now to secure a tax-free future for that money.

Why Do It?

The primary motivation is the belief that your income tax rate today is lower than it will be in the future. By converting, you lock in today's rates on the converted amount, forever.

How to Pay the Tax?

It is highly advisable to pay the resulting tax bill with funds from outside the IRA (e.g., from a checking or brokerage account). Using the IRA funds to pay the tax reduces the amount working for you tax-free and can trigger penalties if under 59½.

Conversion Example : The Tax Bill

Let's quantify the immediate impact of a conversion.

Scenario

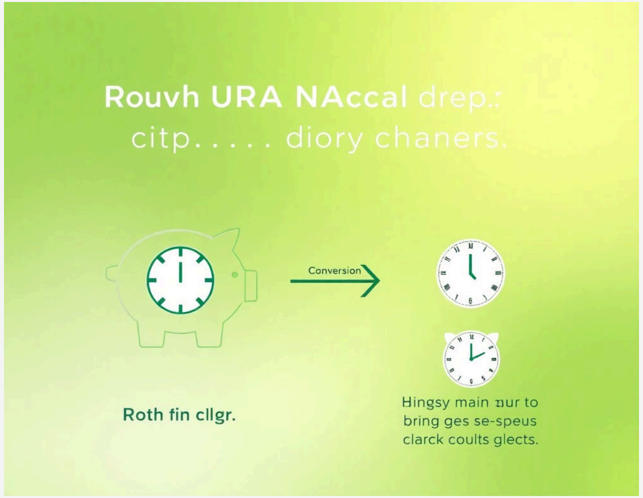
- An individual decides to convert **$50,000** from their Traditional IRA to a Roth IRA.
- Their marginal federal income tax bracket for the year is **24%**.

The Immediate Tax Cost

Calculation: $50,000 (Conversion) x 24% (Tax Rate) = **$12,000**

This $12,000 will be due when they file their taxes for the year of the conversion. In exchange, the full $50,000 is now positioned for tax-free growth and withdrawal in the future.

The Conversion 5-Year Rule (A *Second* Clock)

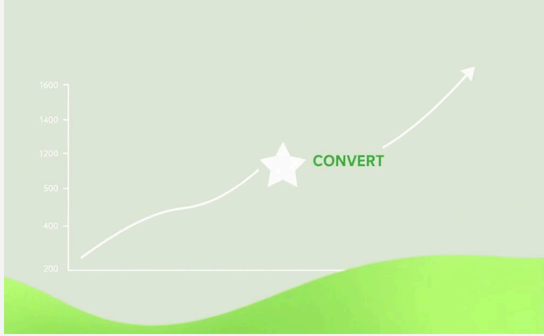


This is a separate and distinct rule from the main 5-year clock for earnings. It applies to *each* conversion event and is designed to prevent abuse of the system.

- **Purpose**: To prevent someone from converting funds and immediately withdrawing them to avoid the 10% early withdrawal penalty.
- **Rule**: If you are under age 59½, you must wait 5 years from the date of each conversion (or until age 59.5) to withdraw the converted principal penalty-free.
- Each conversion has its own 5-year waiting period.
- Conversion starting date is Jan 1 of the calendar year in which the conversion is done. Differs slightly from Roth IRA contribution start date which could be Jan 1 of the prior year depending on when you make the initial Roth IRA contribution

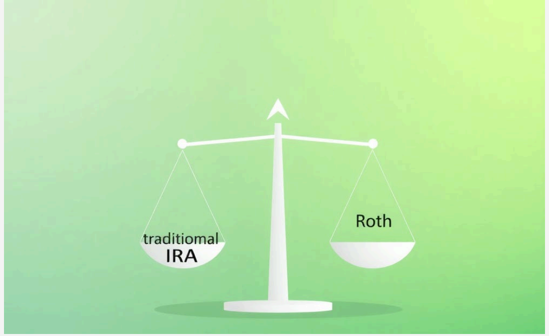
Who Should Consider a Roth Conversion?

Conversions are a strategic financial planning tool, not a one-size-fits-all solution. They are most powerful in specific situations.



Those in a Low-Income Year

A temporary gap in employment, early retirement before Social Security begins, or a down year in a business creates a 'dip' in your tax bracket—a perfect opportunity to convert funds at a lower tax rate.



Those Wanting to Manage RMDs

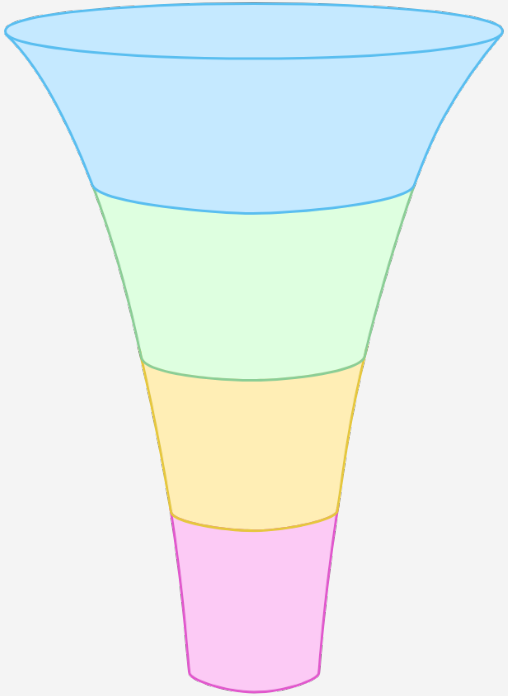
For affluent individuals with large tax-deferred balances, converting portions over time reduces the future Traditional IRA balance, thereby lowering the eventual RMDs and the associated tax bill.

Those with a Long Time Horizon

If you are confident taxes are rising long-term and have decades before you need the money, paying the tax now can lead to massive tax savings on decades of compounded growth.

The 'Backdoor' Roth Strategy

This is a legal, IRS-acknowledged strategy that allows high-earners, who are above the MAGI contribution limits, to fund a Roth IRA.



Step 1: You have $0 in existing pre-tax IRA accounts.

Step 2: Make a non-deductible contribution to a Traditional IRA.

Step 3: Wait for the funds to settle, then immediately convert the Traditional IRA to a Roth IRA.

Result: Roth IRA is funded. Because the initial contribution was non-deductible (after-tax), the conversion is a non-taxable event.

This strategy hinges on a critical detail: The Pro-Rata Rule.

Warning: The Pro-Rata Rule

The 'Backdoor' strategy can become a tax trap if you already have other pre-tax IRA funds. The IRS views all your IRAs (except inherited ones) as one giant account for tax purposes.

- When you convert, you can't just convert the after-tax dollars you just put in.
- The conversion is considered a proportional (pro-rata) mix of all your pre-tax and after-tax IRA money.
- This means a portion of the conversion will be unexpectedly taxable.

Backdoor Example : A Clean Conversion

1

Scenario

A taxpayer has **$0** in all other Traditional, SEP, or SIMPLE IRAs. Their income is too high to contribute directly to a Roth.

2

Actions

1. They contribute $7,000 of non-deductible funds to a new Traditional IRA.
2. They immediately convert the entire $7,000 to a Roth IRA.

3

Result: $0 Tax Due

Since 100% of their total IRA balance was after-tax money, 100% of the conversion is tax-free. The strategy works perfectly.

Backdoor Example : The Pro-Rata Tax Trap

Scenario

A taxpayer has an existing pre-tax Traditional IRA with a balance of **$93,000**. They want to perform a backdoor Roth.

Actions

1. They contribute $7,000 non-deductible to a Traditional IRA. Their total IRA balance is now $100,000 ($93k pre-tax, $7k after-tax).
2. They convert $7,000 to a Roth IRA.

Result: Unexpected Tax Bill

The IRS sees that only 7% ($7k / $100k) of their total IRA money is after-tax. Therefore, only 7% of the $7,000 conversion ($490) is tax-free. The other **93%** ($6,510) is taxable income!

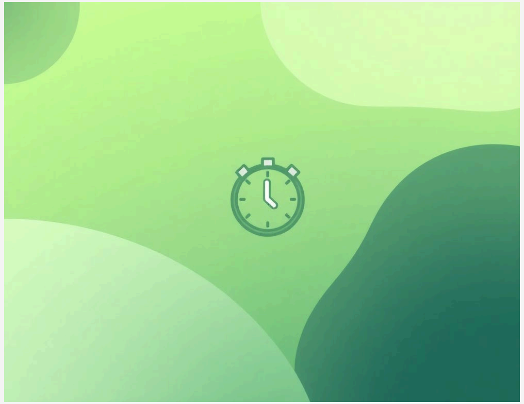
Strategy: The Power of Tax Diversification

The ultimate goal for a secure retirement is not just having enough money, but having control over your income and taxes. The best way to achieve this is by holding assets in three distinct 'tax buckets'.

1. Taxable Bucket

(e.g., Brokerage Account). Taxed annually on dividends and gains. Provides liquidity.

2. Tax-Deferred Bucket



(e.g., Traditional IRA/401k). No tax now, but 100% taxable on withdrawal. Subject to RMDs.

3. Tax-Free Bucket

(e.g., Roth IRA). Tax-free withdrawals give you control to 'fill up' tax brackets without increasing your tax bill.

Advanced Strategy: The Mega Backdoor Roth IRA

What is it?

A strategy used by high earners to get a large amount of money into a Roth IRA, bypassing the standard income limits.

Who is it for?

Individuals who are already maxing out their regular 401(k) and want to save even more for retirement in a tax-free account.

Key Requirements

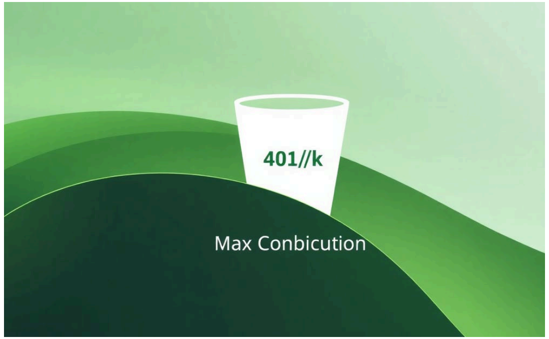
401(k) Plan Feature

Your employer's 401(k) plan MUST allow for after-tax (non-Roth) contributions.

Plan Distribution Feature

The plan must allow for either 'in-service distributions' (moving money out while employed) or 'in-plan Roth rollovers' (converting after-tax money to Roth inside the 401(k)).

How the Mega Backdoor Works: Step-by-Step



Step 1: Maximize Your Standard Contribution

First, contribute your maximum employee deferral to your Pre-tax or Roth 401(k) (e.g., $23,500 in 2025). This is the foundation.

Step 2: Make 'After-Tax' Contributions

Contribute additional funds to your 401(k)'s specific 'after-tax' bucket. This can be done up to the total IRS 401(k) limit (e.g., $70,000 in 2025), minus other contributions.

Step 3: Convert to Roth

As soon as possible, move those after-tax dollars into a Roth account. This can be a rollover to a personal Roth IRA (best) or an in-plan conversion to a Roth 401(k) (good).

The Result: Tax-Free Growth for Life

The after-tax principal moves to a Roth account tax-free. This money is now positioned to grow 100% tax-free for the rest of your life.

Mega Backdoor Example (2026 Limits)

Jane's Situation

- High earner, over Roth IRA income limit
- Total 401(k) Limit: $72,000
- Max Pre-tax Contribution: $24,500
- Employer Match: $10,000

Calculating Her 'Mega' Space

$72,000 (Total Limit) LESS

$24,500 (Her Deferral) : LESS

- $10,000 (Employer Match) LESS

= **$37,500 (Available After-Tax Space)**

Her Action & Benefit

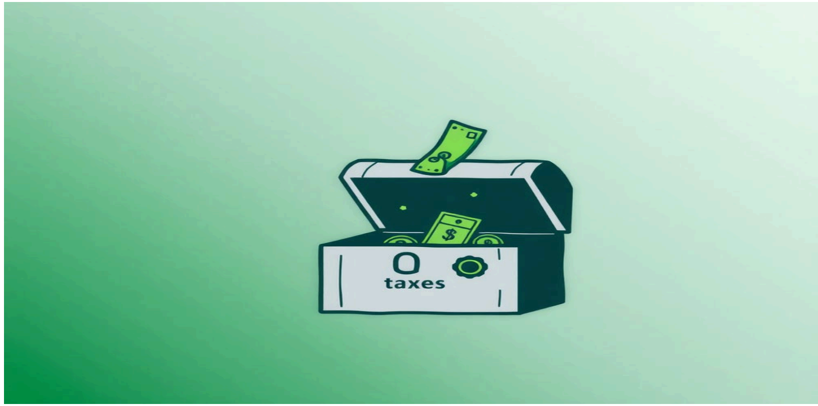
Jane contributes an extra $37,500 in after-tax funds and immediately rolls it to her Roth IRA. She successfully added a huge sum to her tax-free retirement account, bypassing the usual limits.

Roth vs. Traditional: Inheriting Under the 10-Year Rule

The SECURE Act requires most non-spouse beneficiaries to liquidate an inherited IRA within 10 years. This has major tax implications.

Problem: Inheriting a Traditional IRA

- Every withdrawal is taxed as ordinary income.
- Forced withdrawals can push beneficiaries into higher tax brackets.
- A large portion of the inheritance can be lost to taxes.



Benefit: Inheriting a Roth IRA

- All withdrawals are 100% tax-free for the beneficiary.
- The account can grow tax-free for the full 10 years.
- Heirs can withdraw the entire, larger balance in Year 10 with zero tax, preserving 100% of the funds.

Advanced Legacy: Leaving a Roth IRA in Trust

Using a trust provides asset protection, but trusts have extremely high 'compressed' tax rates (37% on just ~$15k of income).

Tax Disaster: Traditional IRA to a Trust

- Mandatory distributions from the Traditional IRA count as taxable income for the trust.
- This income is hit with the top 37% tax rate after $15,650 of trust taxable income
- This destroys the value of the inheritance.

The Solution: Roth IRA to a Trust

- Roth IRA distributions are NOT taxable income.
- A Roth IRA can be paid to a trust, which can manage the funds for 10 years.
- The trust can take distributions without creating any taxable income, completely avoiding the 37% compressed tax rates.

Appropriateness Scenario: The Young Saver

This is a useful perspective for advising children or grandchildren.

Scenario

Age 25, just starting their career in a low tax bracket (e.g., 12%). They expect their salary and tax bracket to increase significantly over their lifetime.

Recommendation: Roth is Ideal

Paying tax at a 12% rate now is far superior to potentially paying tax at 24%, 32%, or even higher rates on a much larger sum in retirement. They are trading a small, known tax bill today for the elimination of a large, unknown tax bill in the future.

Appropriateness Scenario: The Mid-Career High Earner

1

Scenario

Age 45, in their peak earning years and in a high tax bracket (e.g., 32% or higher). They are well above the MAGI limit for direct Roth contributions.

2

Recommendations

1. **Max out tax-deferred accounts first:** Prioritize the Traditional 401(k) to get the large tax deduction today.
2. **Execute the 'Backdoor Roth' strategy:** If they have no other pre-tax IRA money, this is a straightforward way to get funds into a Roth.
3. **Consider the Roth 401(k) option:** If their employer offers it, this allows them to save for a tax-free future without income limits.

Appropriateness Scenario: The Pre-Retiree/Retiree

This is a critical planning window and perhaps the most powerful use of the Roth conversion strategy.

Scenario

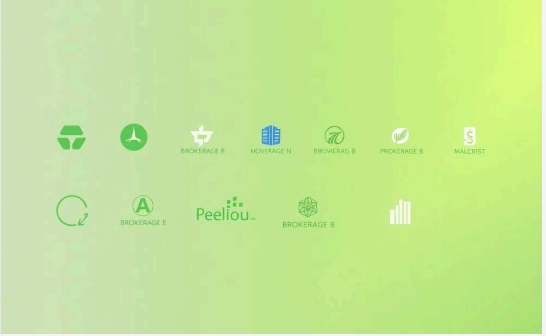
Age 60-65. Recently retired, but have not yet started taking Social Security or mandatory RMDs from their IRAs. Their taxable income is temporarily very low.

Recommendation: Strategic Roth Conversions

This is the 'golden window' to convert funds from Traditional IRAs to Roth IRAs. They can strategically convert just enough each year to 'fill up' the lower tax brackets (e.g., the 10%, 12%, and 22% brackets) without pushing themselves into higher brackets. This systematically reduces their future RMDs and creates a large pool of tax-free funds for later in retirement.

Where to Open a Roth IRA

A Roth IRA is simply a type of account, a 'wrapper' that provides tax benefits. You can open one at most major financial institutions.



Major Brokerage Firms

Companies like Vanguard, Fidelity, and Charles Schwab are popular choices. They offer a wide range of investment options (stocks, bonds, ETFs, mutual funds) and low fees.

The Key Point

The Roth IRA itself is just the container. The crucial decision is what you choose to **invest in** inside that container.

What Should You Invest in Inside a Roth IRA?

A common strategic approach is to place assets with the highest expected growth potential inside your Roth IRA. Why? Because you want to maximize tax free distributions.

- **Ideal Roth Assets**: Stock mutual funds, Equity ETFs .
- **Assets for Other Accounts:** Bonds, REITs, or other income-producing assets are often better suited for tax-deferred or taxable accounts.

Common Roth IRA Mistakes to Avoid

- **Not Tracking Your MAGI**: Accidentally contributing when you're over the income limit can lead to penalties.
- **Triggering the Pro-Rata Rule:** Attempting a 'Backdoor Roth' without realizing you have other pre-tax IRA funds, resulting in a surprise tax bill.
- **Withdrawing Earnings Early:** Taking out more than your contribution basis before age 59½ and unnecessarily paying taxes and penalties.
- **Paying for a Conversion With IRA Funds:** Reducing the effectiveness of the conversion by using the retirement money itself to pay the tax bill.

Final Q&A and Resources

The rules surrounding retirement accounts can be complex and change over time. It's essential to consult with qualified professionals and use reliable sources.

Open Discussion & Questions

Reliable Resources

- **IRS Publication 590-A:** Contributions to Individual Retirement Arrangements (IRAs)
- **IRS Publication 590-B:** Distributions from Individual Retirement Arrangements (IRAs)
- Your financial advisor and tax professional.

Thank you for your time and attention!

Roth IRA Distributions: Quick Reference Guide

Component	Taxable	10% Penalty
Contribution – Principal	Never Taxable	Never
Conversion – Principal	Never taxable	Under age 59.5 AND 5-year conversion clock not met
Earnings	Yes if: • Under age 59.5 OR • Original 5 Year Roth clock not met	Under age 69.5 and not qualified (exceptions may apply)

Roth IRA Distributions: Important Notes

- IRS ordering rules: Contributions → Conversions → Earnings.
- Regular contributions are always tax- and penalty-free when withdrawn.
- Conversion amounts are never taxable (tax paid at conversion), but may be penalized if withdrawn before age 59½ and before the 5-year conversion clock ends.
- Earnings are tax-free only in a qualified distribution (age 59½+ and 5-year original Roth clock met).
- Each conversion amount has its own separate 5-year penalty clock.