



LM Federal Credit Union

Aaron Welch, RFC
Financial Advisor
1200 E Joppa Road, Suite G
Towson, MD 21286
667-308-2724
awelch@moneyconcepts.com



**Wealth Management &
Financial Planning Services**

What is a Roth IRA?



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Roth IRAs are tax-favored financial vehicles that enable investors to save money for retirement. They differ from traditional IRAs in that taxpayers cannot deduct contributions made to a Roth. However, qualified Roth IRA distributions in retirement are free of federal income tax and aren't included in a taxpayer's gross income. That can be advantageous, especially if the account owner is in a higher tax bracket in retirement or taxes are higher in the future.

A Roth IRA is subject to the same contribution limits as a traditional IRA. The maximum combined annual contribution an individual can make to traditional and Roth IRAs is \$6,000 in 2019, up from \$5,500 in 2018. Special "catch-up" contributions enable those nearing retirement (age 50 and older) to save at an accelerated rate by contributing \$1,000 more than the regular annual limits.

Another way in which Roth IRAs can be advantageous is that investors can contribute to a Roth after age 70½ as long as they have earned income, and they don't have to begin taking mandatory distributions due to age, as they do with traditional IRAs; however, beneficiaries of Roth IRAs must take mandatory distributions.

Roth IRA withdrawals can be made at any time and for any reason. Withdrawals of your own contributions are tax-free and not subject to the 10% federal income tax penalty for early withdrawals. In order to make a qualified income tax-free distribution of earnings, the account must meet the five-year holding requirement and the account owner must be either (a) age 59½ or older, (b) disabled, or (c) purchasing a first home (\$10,000 lifetime limit). Otherwise, these withdrawals of earnings are subject to ordinary income tax and the 10% federal income tax penalty [with certain exceptions including death, disability, unreimbursed medical expenses in excess of 10% of adjusted gross income, higher-education expenses, the purchase of a first home (\$10,000 lifetime cap), substantially equal periodic payments, and qualified reservist distributions].

Keep in mind that even though qualified Roth IRA distributions are free of federal income tax, they may be subject to state and/or local income taxes. Eligibility to make annual contributions to a Roth IRA phases out for taxpayers with higher incomes.

If you're looking for a retirement savings vehicle with some distinct tax advantages, the Roth IRA could be appropriate for you.

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11440 North Jog Road, Palm Beach Gardens, FL 33418 Phone: 561.472.2000
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