



Understanding Roth IRAs

Could a Roth IRA Help My Planning?

A common planning question we discuss with clients' is could a Roth IRA potentially help me and if so, how? Therefore, we thought it may be helpful to discuss this topic in a little more detail.

What is a Roth IRA?

A Roth IRA is an Individual Retirement Account to which you contribute after-tax dollars. While there are no current-year tax benefits, your contributions and earnings can grow tax-deferred, and you can withdraw them tax-free and penalty free after age 59½ and once the account has been open for five years.

What are the Benefits and Drawbacks of Roth IRA Accounts?

The benefits of Roth IRAs can be helpful to your long-term retirement and tax planning. They include the following:

- Tax-free withdrawals in retirement.
- No required minimum distributions or RMD's.
- No age limit for contributions.
- Potential for tax-deferred growth of contributions and earnings.
- Flexibility in managing and using retirement savings.
- At death – the value of the Roth IRA is income-tax free to beneficiaries.

While Roth IRAs offer multiple benefits, they have some potential downsides:

- Contributions are made with after-tax dollars and cannot be claimed as a tax deduction.
- High income earners may not be eligible to contribute to a Roth IRA.
- Contributions are limited to a certain amount per year.
- Withdrawals of contributions are tax-free, but earnings are subject to taxes and penalties if taken before 59 ½, and it must be five years since your first contributed to your Roth.



Are you maximizing your retirement savings with the tax advantages and strategic benefits of Roth IRAs?



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What is a Roth IRA Conversion?

A Roth IRA conversion is the process of converting assets from a traditional IRA or another eligible retirement account into a Roth IRA. This conversion is taxed as ordinary income in the year it is made, but all future growth and qualified withdrawals from the Roth IRA are tax-free. If a taxpayer has traditional IRA accounts that hold both deductible and non-deductible amounts, he or she may not “cherry-pick” and convert only the non-deductible contributions. Instead, the value of all IRA accounts is added together, and a ratio is calculated to determine the tax-free portion of any conversion.

What is a “Backdoor Roth IRA” Conversion?

This strategy allows individuals with high incomes to contribute to a Roth IRA, even if their income exceeds the limits set by the IRS. This is done by first contributing to a Traditional IRA, and then converting that money to a Roth IRA. The conversion is subject to income taxes, but it allows you to contribute to a Roth IRA without being subject to IRS income limits. It is important to note that this strategy may not be suitable for everyone. Our team can coordinate with you and with your tax professional before completing a backdoor Roth IRA conversion.

“Mega Backdoor Roth IRA”:

This is for people who have a 401(k) plan that allows them to contribute up to \$43,500 of post-tax dollars in 2023 and then roll it into a mega backdoor Roth. The caveat: Creating a mega backdoor Roth is complicated and has many moving parts. If not properly executed, you have the potential to get hit with unexpected tax bills. Therefore, it is important to plan up front with your accountant and our team to avoid possible issues.

Are There Any Benefits to Roth IRA Conversions in a Down Market?

There are several potential benefits to completing a Roth IRA conversion in a down market:

- Lower Taxes: As the value of the traditional IRA is lower during a down market, the amount of taxes owed on the conversion may be lower.
- Potential for future tax-deferred growth on your fund in the Roth IRA account when the stock market recovers.
- Tax Diversifications: Utilizing a Roth IRA can also provide tax diversification in your retirement income sources.

Does a Roth IRA Conversion Make Sense for You?

Ultimately, the decision to convert to a Roth IRA should be based on your individual specific financial situation, planning goals and tax planning strategies. Our team, in coordination with your tax advisor, can help you evaluate if and how a Roth IRA could potentially benefit you.

All investing involves risk including loss of principal. No strategy assures success or protects against loss. Past performance is no guarantee of future results. There can be no guarantee that any strategies promoted will be successful.

A Roth IRA offers tax deferral on any earnings in the account. Qualified withdrawals of earnings from the account are tax-free. Withdrawals of earnings prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Limitations and restrictions may apply.

Traditional IRA account owners have considerations to make before performing a Roth IRA conversion. These primarily include income tax consequences on the converted amount in the year of conversion, withdrawal limitations from a Roth IRA, and income limitations for future contributions to a Roth IRA. In addition, if you are required to take a required minimum distribution (RMD) in the year you convert, you must do so before converting to a Roth IRA.