

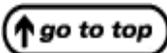
# Traditional Vs Roth IRAs: Frequently Asked Questions

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## What's good about investing in IRAs?

There are two types of IRAs, Traditional IRAs and Roth IRAs, both of which are discussed in this Financial Guide. Traditional IRAs defer taxation of investment income and withdrawals are taxable income--except for withdrawals of previously non-deductible contributions. In most cases however, contributions are deductible. Roth IRAs are subject to many of the same rules as Traditional IRAs, but there are several differences, the primary one being that contributions are not deductible and are made after tax. As such, qualified distributions are generally tax-free.



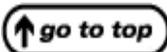
## Can anyone have a traditional IRA?

If you have income from wages or self-employment income, you can contribute up to \$5,500 in 2015 (same as 2014). As such, IRAs are available even to children who meet these conditions. Persons age 50 and older can contribute an additional \$1,000 for a total of \$6,500 in 2015.



## Can my homemaker spouse have an IRA?

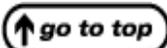
Yes. Contributions of \$5,500 for each spouse are allowed in 2015 (same as 2014) if the couple's wages or self-employment earnings are \$11,000 or more.



## What makes Roth IRAs so special?

Roth IRAs offer the following advantages:

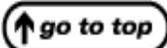
- Withdrawals, if they qualify, are completely exempt from income tax, unlike all other retirement plans.
- You can quickly build up a Roth IRA account by converting traditional IRAs into Roth IRAs, but there is a tax cost.
- Since there is no age requirement for withdrawals from a Roth IRA, more money can be left in an account and passed on to heirs than is allowed under other plans.



## Can anyone have a Roth IRA?

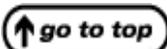
Not everyone can have a Roth IRA. The following conditions apply:

- You can't contribute to a Roth IRA for a year with income (AGI) above \$131,000 if single or \$193,000 on a joint return in 2015 (\$129,000 and \$191,000, respectively, in 2014).
- You must have earnings from personal services (at least \$5,500 or more) to make the (maximum) contribution, although an additional contribution of \$1,000 is allowed for persons age 50 and over.



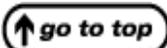
## Can I set up a Roth IRA for my spouse?

Yes, subject to the income conditions above. This allows contributions of \$5,500 each if the couple's earnings are at least \$11,000 in 2015 (\$12,000 if only one of you is age 50 or older or \$13,000 if both of you are age 50 or older).



## Can I set up a Roth IRA for my child?

Yes, for a child with personal service earnings, and subject to the other income conditions.



## What's the downside to Roth IRAs?

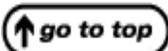
The following is a brief list of negative issues regarding Roth IRAs:

- Roth IRA contributions are not tax deductible. There's never a deduction for Roth IRA contributions.
- To build a sizable Roth IRA fund, you must convert a traditional IRA (or, after 2007, funds from an employer plan). Conversions are taxable.

There is no longer an income limit for taxpayers who want to convert a traditional IRA to a Roth IRA as was the case prior to 2010. Starting in 2010, however, all taxpayers were able to convert a regular IRA to a Roth IRA without

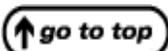
regard for income. The conversion was a taxable distribution which could be taken into income in 2010 or averaged over the next two years (until 2012). The conversion was not subject to the 10 percent early distribution penalty. Congress passed the removal of the \$100,000 MAGI ceiling under unusual circumstances.

In 2011 however, the rules changed again and taxpayers who converted to Roth IRAs must pay taxes on the conversion income at that time instead of deferring it in later years as was the case in 2010. In other words, you must include in your gross income distributions from a traditional IRA the amount that you would have had to include in income if you had not converted them into a Roth IRA. These amounts are normally included in income on your return for the year that you converted them from a traditional IRA to a Roth IRA. Special rules apply for conversions made in tax year 2010.



### What can I do if I converted to a Roth IRA and my income exceeds \$100,000?

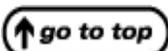
The income limit was permanently removed starting in 2010. Anyone, even those with high incomes, can convert from a traditional IRA to a Roth IRA.



### What if my Roth IRA assets fall in value after conversion?

When you convert from a traditional IRA to a Roth IRA you pay taxes on the value of your account as of the conversion date. If your account loses value and the account is worth less, you'll end up paying taxes on money you no longer have in your account. Fortunately, the IRS lets you "re-characterize" the account back to a traditional IRA, essentially putting you right back where you were—at least tax wise.

Say you convert \$50,000 in a traditional Ira to a Roth IRA and the value drops to \$35,000. If you didn't make any nondeductible contributions, the taxable distribution would be \$50,000 and that would be the amount you would be paying taxes on. However, now your account is only worth \$35,000. By re-characterizing the account you can avoid paying taxes on money you no longer have (\$50,000). You'll be back to a traditional IRA, but of course the account is now worth only \$35,000.



### How are my heirs taxed on inherited Roth IRA wealth?

Your heirs are taxed as follows:

- No income tax whatever, if the funds have been in the Roth IRA at least 5 years.
- The heir can spread the withdrawal over his or her life, continuing the tax shelter for amounts not withdrawn.
- Estate tax treatment is the same as for traditional IRAs.

