

Roth IRA Roth 401 (k)

ROTH IRA BENEFITS

- Tax-free income in retirement
- Tax-free distributions from Roth IRAs will not expose investment income to the 3.8% healthcare surtax
- No required distributions for Roth IRA owners
- Roth IRA conversions can be recharacterized to an IRA – not to an employer plan
- Roth IRA funds pass income tax free to beneficiaries
- Roth IRA beneficiaries can stretch tax-free distributions over their lifetimes
- Roth IRAs remove the uncertainty of what future tax rates might be
- Anyone can convert IRA or employer plan assets to a Roth IRA
- Roth contributions can be made after age 70 ½ as long as there is earned income
- A working spouse can make a contribution for a non-working spouse
- There is no 10% early distribution penalty on Roth IRA conversions
- Distributions to a trust beneficiary are income-tax free and won't trigger high trust income taxes
- Can do partial conversions or fill up tax brackets annually
- Inherited employer plan assets can be converted to an inherited Roth IRA
- Unlimited investment options – tax code prohibits investments in collectibles and life insurance only

ROTH 401(K) BENEFITS

- Roth 401(k) funds can be rolled over to a Roth IRA
- The Roth 401(k) funds will pick up the 5-year holding period of the Roth IRA (this is good when the first Roth IRA was established more than five years ago)
- Plan participants can convert plan assets to Roth 401(k) accounts – if the plan allows
- Plans with more than one employee have creditor protection under ERISA
- Plan loans can be done from Roth 401(k)s – if the plan allows
- Can contribute larger amounts annually – up to deferral limit (\$17,500 for 2013 plus catch-up amount)
- No income limits on salary deferrals
- The plan will keep track of deferrals, employer match, and in-plan conversions to determine the taxability of any non-qualified distributions

ROTH IRA CONS

- There are income limits on contributions and you must have earned income
- Contributions limited to \$5,500 for 2013 (plus \$1,000 catch-up amount, if age 50+)
- Taxes must be paid on contributions and pre-tax amounts converted
- The pro-rata tax rule applies to conversions
- Certain early withdrawals could be subject to taxes or penalties (converted amounts – 10% early distribution penalty) (earnings – tax and the 10% early distribution penalty if applicable)
- Inherited Roth IRAs are subject to required distributions
- RMDs must be taken before doing a conversion – they cannot be converted to a Roth IRA
- Inherited IRA assets cannot be converted to an inherited Roth IRA
- Clients must keep track of basis, contributions, conversions, rollovers from Roth 401(k)s, to determine the taxability or penalty status of distributions until distributions are qualified distributions

ROTH 401(K) CONS

- Roth IRA funds cannot be rolled over to a Roth 401(k)
- Each employer's Roth 401(k) has its own 5-year holding period
- The Roth 401(k) funds will pick up the 5-year holding period of the Roth IRA (this is bad when the Roth 401(k) has been held for five years or more and the Roth IRA has not)
- Roth 401(k)s have required distributions at age 70 ½
- There are no recharacterizations of Roth 401(k) contributions or conversions
- Salary deferrals are after-tax and will not reduce income
- In-plan conversions are subject to income tax
- Investment options are limited to choices offered by employer
- Non-qualified distributions are subject to the pro-rata rule not the Roth IRA ordering rules
- Availability of funds will be subject to the plan's rules