

5 Reasons To Open A Roth Ira

For many people, Roth IRAs can provide the unique benefit of tax-free retirement income down the road. Whether you're young and want to take advantage of your low tax bracket, you're older and can't contribute to a traditional IRA, or you're somewhere in between, a Roth IRA could be the right retirement account for you. Following are five reasons to open a Roth IRA as part of your overall retirement strategy.

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1. Tax advantages

Traditional IRAs and 401(k)s give you a tax break during the years that you save for retirement, but you have to pay taxes upon withdrawal. With Roth IRAs, you can make tax-free withdrawals of your original contributions at any time.

Withdrawing money from most retirement accounts before age 59.5 means you will incur a tax penalty—and you'll also pay income tax on the amount you withdrew. This is where opening a Roth IRA can provide you with a substantial advantage. Contributions to a Roth IRA are made after your income is taxed. Since you have already paid taxes on this money, you do not need to pay them again as you withdraw and your earnings can build tax-free.

The tax advantages of a Roth IRA are especially beneficial to young earners. You will most likely earn more as you age, which means that your tax bracket will also increase. By paying taxes on your contributions now, you avoid the higher rate of income tax you could be paying on withdrawals in the future.

Additionally, if your contributions to the Roth IRA produce earnings, the equivalent of this amount can be withdrawn penalty- and tax-free after five years if you are older than 59.5 or meet other specific circumstantial considerations, such as becoming a first-time homebuyer. In this situation, you can withdraw up to \$10,000 of such earnings tax-free to put toward your first house.

2. No required minimum distributions

Most other retirement accounts require you to start withdrawing funds after you reach the age of 70.5, regardless of whether or not you need or want the money. The penalty for failing to withdraw the correct amount is 50 percent of the amount that should have been withdrawn in addition to regular income tax. Roth IRAs are an exception. There are no required minimum distributions (RMDs), no matter how old you get.

With a Roth IRA, you have more control over when to spend the money you've saved. You can keep your money invested and growing tax-free for a longer period of time.

3. Continue to contribute into your 70s

Did you know that you cannot contribute to a traditional IRA after age 70.5? With a Roth IRA, there's no age limit for contributions, making it a great choice for older workers who want to invest money in a tax-advantaged manner.

If you haven't reached your overall savings goals or want to help fund a grandchild's education, you can continue to contribute to your Roth IRA. Remember, any money you put in a Roth IRA has to stay there for five tax years if you want the earnings generated by that contribution to be tax-free upon withdrawal.

4. Tax-free income for heirs

Beneficiaries must pay taxes on the money they withdraw from traditional 401(k)s and IRAs. Roth IRAs are a valuable estate planning tool because your beneficiaries do not need to pay income taxes on their withdrawals (unless your estate is subject to estate taxes).

Since there are no required minimum distributions with a Roth IRA, your heirs have the option of either rolling the inherited Roth IRA into their own or cashing out the account without penalty, regardless of their age. Not only is the income tax-free, but they will also avoid a potentially lengthy probate process if a Roth IRA is transferred to them.

5. Controllable tax income in retirement

If you have a 401(k) or traditional IRA, you'll pay taxes on that money when you start withdrawing it in retirement, and you'll likely owe taxes on a portion of your Social Security income, too.

Another one of the reasons to open a Roth IRA is that tax-free Roth IRAs give you the flexibility to manage your taxable income during retirement, potentially reducing Medicare premiums and income taxes. With a Roth IRA, you manage your distributions from each account so you don't end up in a higher tax bracket.

For example, you could collect your Social Security, then supplement that income with distributions from your 401(k) or traditional IRA, but limit the distributions so that you do not cross into a higher income tax bracket. Then, assuming you also have a Roth IRA, you can withdraw additional income from it, which won't count as taxable income and thus keep you within the marginal rate you had intended.

It's never too late to contribute

Roth IRAs allow you to save for retirement and receive tax-free investment returns, while retaining access to your funds if and when you need them. No matter your age, it makes sense to take the time to see whether you would benefit from a Roth IRA, as they are subject to certain income limitations. For more information on reasons to open a [Roth IRA](#) and how PlainsCapital can help you [invest for your future](#), call a

PlainsCapital Bank representative today at 866.762.8392.