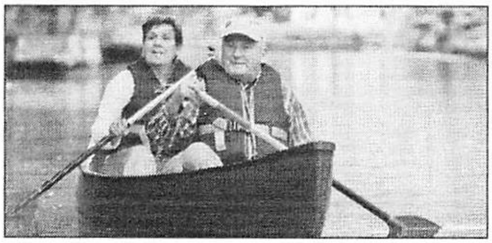

Individual Retirement Accounts
Roth IRAs

Roth IRAs

Roth IRA Contribution Limits—2024	
Lesser of: Taxable compensation for the year, or:	
Under age 50	$7,000
Age 50 or older	$8,000

What is a Roth IRA?

A Roth IRA is an individual retirement arrangement separate from your work. It is a personal savings plan that gives you tax advantages for setting aside money for retirement. An account must be designated as a Roth IRA when opened.

Roth IRA tax advantages and rules compared to a traditional IRA:

- Contributions are not deductible. Being covered by an employer retirement plan is irrelevant.
- If certain requirements are satisfied for qualified distributions, distributions are tax free.
- Can withdraw contributions any time for any reason without owing taxes or penalties.
- The required minimum distribution (RMD) rules do not apply. Distributions are not required until death of the participant.
- Contributions are not allowed when modified adjusted gross income (MAGI) is above certain limits.

Who Can Contribute to a Roth IRA?

Generally, you can contribute to a Roth IRA if you have taxable compensation and income less than the top of the phaseout range for your filing status, see *Roth IRA Phaseouts* chart, next.

Roth IRA Phaseouts—2024

Filing Status	*MAGI*	*Contribution Limit*
Single, Head of Household, or Married Filing Separately (lived apart from spouse all year)	Less than $146,000.	Up to $7,000 ($8,000, age 50 or older).
	At least $146,000, but less than $161,000.	Contribution limit reduced.*
	$161,000 or more.	Cannot contribute to Roth IRA.
Married Filing Jointly or Qualifying Surviving Spouse	Less than $230,000.	Up to $7,000 ($8,000, age 50 or older).
	At least $230,000, but less than $240,000.	Contribution limit reduced.*
	$240,000 or more.	Cannot contribute to Roth IRA.
Married Filing Separately (lived with spouse at any time during the year)	Zero.	Up to $7,000 ($8,000, age 50 or older).
	More than $0, but less than $10,000.	Contribution limit reduced.*
	$10,000 or more.	Cannot contribution to Roth IRA.

*To calculate reduced contribution limit:
1) Subtract the lower limit of the phaseout range from MAGI.
2) Divide result by $10,000 (MFJ and MFS, lived with spouse) or $15,000 (all others).
3) Multiply result by maximum contribution amount.
4) Subtract the result from the maximum contribution limit.

Example: Bob, age 35, Single, $150,000 MAGI:
1) $150,000 – $146,000 = $4,000.
2) $4,000/$15,000 = 0.267.
3) 0.267 × $7,000 = $1,869.
4) $7,000 – $1,869 = $5,131. (Bob's maximum contribution limit).

Compensation. Compensation includes wages, salaries, tips, professional fees, bonuses, and other amounts received for providing personal services. It also includes commissions, self-employment income, nontaxable combat pay, military differential pay, and taxable alimony and separate maintenance payments.

Contributions. Total contributions are combined with traditional IRA contributions to determine limits. For example, a $1,000 contribution to a traditional IRA will reduce total contributions allowable to a Roth IRA by $1,000.

Roth IRAs

Employer contributions under a SEP or SIMPLE IRA plan do not affect this limit.

If your modified AGI is within the phaseout amounts, your contribution limit is gradually reduced.

When Can You Make Contributions?

You can make contributions to a Roth IRA for a year at any time during the year or by the due date of your return for that year (not including extensions). This means that most people can make contributions for 2024 by April 15, 2025.

Conversion Rules

There are no modified AGI limits or filing status requirements relating to rollovers from eligible retirement plans into Roth IRAs.

Conversion contribution. Money distributed from a qualified plan, traditional IRA, or rollover IRA and reinvested within 60 days into a Roth IRA is called a conversion contribution. The distribution is taxable to the extent it does not represent a return of nondeductible basis. A conversion contribution is not subject to the 10% early withdrawal penalty. A conversion contribution can also be accomplished through a trustee-to-trustee transfer or a same trustee transfer where the trustee simply redesignates a traditional IRA as a Roth IRA rather than open up a new account or issue a new contract.

Income. In the year of conversion, the amount of the distribution from a traditional IRA or employer plan converted to a Roth IRA is included in gross income.

Employer plan conversions. Money in an employer-sponsored retirement plan, such as a 401(k), annuity, section 403(b) plan, government deferred compensation (§457 plan), or profit-sharing plan, may be directly converted to a Roth IRA.

Inherited IRA. An inherited traditional IRA from someone other than a spouse cannot be converted into a Roth IRA.

Qualified Distributions

A nontaxable qualified distribution is any payment or distribution from a Roth IRA that meets the following requirements.

- It is made after the 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for your benefit, and
- The payment or distribution is:
  - Made on or after the date you reach age 59½, or
  - Made because you are disabled, or
  - Made to a beneficiary or to your estate after your death, or
  - Made to purchase a first home (up to a $10,000 lifetime limit).

Additional tax on early distributions. If you receive a nonqualified distribution, you must pay the 10% additional tax on early withdrawals penalty on the taxable part of any distributions. Exceptions apply.

Nonqualified distributions. A distribution from a Roth IRA that is not qualified may be partly taxable or nontaxable as there is a set order in which contributions and earnings are considered to be distributed from a Roth IRA. The order is as follows:

1) Regular contributions.
2) Conversion and rollover contributions, on a first-in first-out basis.
3) Earnings on contributions.

Distributions from a Roth IRA that are a return of regular contributions are not subject to tax or penalty, no matter when they are withdrawn. Only the portion of the nonqualified distribution allocable to earnings may be subject to tax and the 10% additional tax.

Are Distributions From Roth IRAs Required?

You are not required to take distributions from your Roth IRA at any age. The required minimum distributions (RMD) rules that apply to traditional IRAs do not apply to Roth IRAs while the owner is alive.

Contact Us

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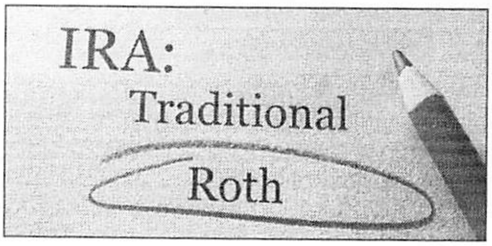
- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.



Individual Retirement Accounts

Roth IRA Conversions

Roth IRA Phase Out

Generally, you can only contribute to a Roth IRA if you have taxable compensation and income less than the top of the phaseout range for your filing status (see chart below). If your income is greater than that threshold amount, you are prohibited from contributing directly to a Roth IRA.

Roth IRA Limits—2024	
Individual Contribution Limits	
Under age 50	$7,000
Age 50 or older	$8,000
Roth IRA Phaseouts	
MFJ or QSS*	$230,000 to $240,000
Single, HOH, or MFS (lived apart from spouse all year)	$146,000 to $161,000
MFS (lived with spouse at any time during the year)	$0 to $10,000

* Qualifying Surviving Spouse (QSS)

Conversion Rules

You can withdraw all or part of the assets from a traditional IRA and reinvest them in a Roth IRA. The amount that you withdraw and timely contribute (convert) to the Roth IRA is called a conversion contribution. If properly rolled over, the 10% additional tax on early distributions will not apply. However, a part or all of the distribution from your traditional IRA may be included in gross income and subjected to ordinary income tax.

There are no income limitations on converting a traditional IRA into a Roth IRA. The conversion is treated as a rollover, regardless of the conversion method used.

Conversion method. You can convert amounts from a traditional IRA to a Roth IRA in any of the following three ways.

- ***Rollover.*** You can receive a distribution from a traditional IRA and roll it over (contribute it) to a Roth IRA within 60 days after the distribution.
- ***Trustee-to-trustee transfer.*** You can direct the trustee of the traditional IRA to transfer an amount from the traditional IRA to the trustee of the Roth IRA.
- ***Same trustee transfer.*** If the trustee of the traditional IRA also maintains the Roth IRA, you can direct the trustee to transfer an amount from the traditional IRA to the Roth IRA. Conversions made with the same trustee can be made by redesignating the traditional IRA as a Roth IRA, rather than opening a new account or issuing a new contract.

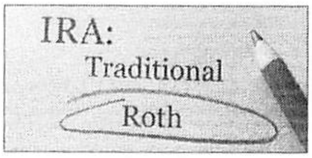
Conversion of deductible IRA. If you convert a traditional IRA that you received a tax deduction on in a previous year to a Roth IRA, you will owe taxes on the entire amount converted.

Example: *Jaslyn has a traditional IRA with a fair market value of $500,000. All of the contributions to the traditional IRA were deductible. If Jaslyn converts the entire $500,000 traditional IRA to a Roth IRA, she will owe ordinary income taxes on the full $500,000 amount, which is included in her income.*

Conversion of nondeductible IRA. If you make a nondeductible contribution to a traditional IRA, you can convert the entire amount tax-free. Only the earnings on the nondeductible IRA contributions are taxed.

See *Backdoor Roth IRA*, later.

Example: *Manny is single and has a modified AGI of $250,000. He wishes to save money in a Roth IRA so he can make nontaxable withdrawals upon retirement. In 2024, he opens a traditional IRA with a $7,000 nondeductible contribution and a couple months later, converts it to a Roth IRA. He has no other traditional IRAs. At the time of Roth conversion, the account had increased in value by $250, which is the only taxable part of the conversion.*



Individual Retirement Accounts

Roth IRA Conversions

Conversion of part-deductible/nondeductible IRA. If you make a conversion to a Roth IRA that consists of deductible and nondeductible IRA contributions, you will owe tax on the proportion of your overall IRA balance that is considered after tax (nondeductible) as compared to before tax (deductible). You cannot choose to have the cost basis distributed first. Additionally, the values of all traditional IRAs are aggregated to determine the taxable portion of a distribution. Each distribution is partly nontaxable and partly taxable until your entire cost basis has been distributed.

Note: Because of these traditional IRA distribution rules, the backdoor Roth IRA works best if you do not have any other traditional IRAs.

Example: *Jay has $100,000 in his traditional IRA, $10,000 of which is after-tax. Therefore, 10% ($10,000 ÷ $100,000 = 10%) of his traditional IRA consists of after-tax money. If Jay wants to convert $20,000 of his traditional IRA to a Roth IRA, $2,000 ($20,000 × 10% = $2,000) would be tax free. The remaining $18,000 ($20,000 – $18,000 = $2,000) would be taxable.*

Example: *Gloria has $95,000 in her traditional IRA, all of which is pre-tax. If Gloria makes a $5,000 nondeductible (after-tax) contribution to a traditional IRA, her total IRA balance will be $100,000, $5,000 of which will be after-tax. Thus, only 5% ($5,000 ÷ $100,000 = 5%) of her Roth IRA conversion will be tax-free. If Gloria converts $5,000 from her traditional IRA to a Roth IRA after making her nondeductible contribution, just $250 would be tax free ($5,000 × 5%), while the remaining $4,750 ($5,000 – $250 = $4,750) would be taxable.*

Backdoor Roth IRA

Generally, if you are phased out from making a direct Roth IRA contribution, you are also phased out from making a deductible traditional IRA contribution.

If you are above the phaseout range and want to contribute to a Roth IRA, consider making a nondeductible contribution to a traditional IRA and then immediately converting it to a Roth IRA. This is sometimes known as a "backdoor Roth IRA" because it allows a taxpayer to bypass the income limitation applicable Roth IRA contributions. The example under *Conversion of a nondeductible IRA*, above, is similar to a backdoor IRA Roth contribution, except that, because with a backdoor Roth contribution the two transactions take place back-to-back, the traditional IRA will have no earnings to be taxed.

Note: Due to the distribution rules for traditional IRAs, this works best if the taxpayer has no other traditional, SEP, or SIMPLE IRAs.

Required Minimum Distribution (RMD)

You cannot convert amounts that must be distributed from your traditional IRA for a particular year (including the calendar year in which you reach age 73) under the required distribution rules.

Periodic Distributions

If you started taking substantially equal period payments from a traditional IRA, you can convert the amount in the traditional IRA to a Roth IRA and then continue the periodic payments. The 10% additional tax on early distributions will not apply even if the distributions are not qualified distributions, as long as they are part of a series of substantially equal periodic payments.

Recharacterization

Recharacterization of a contribution to an IRA. A recharacterization allows a taxpayer to treat a regular contribution made to a Roth or to a traditional IRA as having been made to the other type of IRA. A recharacterization does not include a conversion or any other rollover.

Rollovers or conversion to a Roth IRA. A conversion of a traditional IRA to a Roth IRA, and a rollover from any other eligible retirement plan to a Roth IRA, cannot be recharacterized back into a traditional IRA. Accordingly, a recharacterization cannot be used to unwind a Roth IRA conversion.

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