

# Roth IRA

A Roth IRA is a tax-favored retirement plan that can be established by an individual investor. It is one of the most common individual retirement vehicles available, and many investors can benefit from the advantages of investing in this type of plan.

## CONTRIBUTION LIMITS

Contributions to a Roth IRA may be made in one or more payments throughout the year. You can contribute up to \$5,000<sup>1</sup> in 2010 and \$5,000<sup>1</sup> in 2011 if you meet the following requirements:

- You have earned income or are married to someone with earned income<sup>2</sup>; and
- Your modified gross income is below \$166,000 for 2010 and \$169,000 for 2011, if you're married and file a joint return<sup>3</sup>; or
- Your modified gross income is below \$105,000 for 2010 and \$107,000 for 2011, if you're filing an individual return<sup>3</sup>.

In addition, if you are age 50, or older, you may contribute an additional \$1,000 to your Roth IRA, as a "catch-up" contribution.

## BENEFITS OF A ROTH IRA

When you invest in a Roth IRA, you receive considerable benefits, including:

- *Tax-Free Withdrawals* — You'll pay no taxes on distributions as long as your Roth IRA has been open at least five years and you have reached age 59½.
- *Tax-Free Earnings* — Your Roth IRA earnings will accumulate tax-free. This means that the power of compounding is put to full use in your retirement plan.

- *No Age Limit for Contributions* — A Roth IRA allows you to contribute past age 70½.
- *No Required Minimum Distributions* — There are no required minimum distributions after age 70½ or at anytime during your life. You can put off taking distributions until you need the money or you can leave the entire balance to your beneficiary without ever taking a single distribution. Please note, a non-spouse beneficiary is required to take annual distributions.
- *Penalty-Free Withdrawals for Home Purchases* — You may withdraw up to \$10,000 from your Roth IRA during your lifetime to help pay for a primary residence for yourself, your parents, grandparents, spouse, child or grandchild. This withdrawal is usually allowed if the home purchaser hasn't owned a primary residence for the past two years.

When you consider these and other features of the Roth IRA, you'll realize that it has some unique advantages over other retirement savings vehicles.

## CONVERTING FROM A TRADITIONAL IRA TO A ROTH IRA

If you already have a traditional IRA, you may be interested in converting it to a Roth IRA. Converting may make sense under the following conditions:

- *You have enough non-IRA savings to pay the taxes* — You'll have to pay taxes on your deductible IRA if you plan on converting it to a Roth IRA. If you can use non-IRA assets to pay these taxes, the conversion can be a good idea, but if you have to cash out part of your traditional IRA, the switch might not be worth it. Plus, the amount withdrawn to pay the taxes may be subject to a 10% penalty.



RBC Wealth Management®

## Roth IRA, continued

- *You are years away from retirement* — If you won't need your money for many years, you may come out ahead by converting to a Roth IRA. That's because the advantages of tax-free distributions, offered by the Roth IRA, will start to outweigh the cost of taxes today for moving the money out of your traditional IRA.
- *You believe you may be in the same tax bracket, or a higher one, in retirement* — When you own a traditional deductible IRA, you'll be taxed at your marginal tax bracket when you withdraw your money. That could work to your favor — if your tax bracket falls during retirement. But if you think your tax bracket will stay the same, or perhaps even rise, then you may well come out ahead by converting to a Roth.
- *You do not anticipate spending the assets for your retirement* — By converting your traditional IRA to a Roth IRA you can pre-pay income taxes for your heirs. This may reduce the size of your taxable estate and may allow your beneficiaries to receive tax-free distributions.

To convert to a Roth IRA, your modified adjusted gross income must be less than \$100,000, whether you are single or married filing a joint return. Please note, however, that the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) has eliminated this requirement beginning in 2010. In addition, individuals who elect to convert in 2010 will be able to pay half the taxes due in 2011, half in 2012.

Keep in mind, the amount you convert will be subject to ordinary income taxes. However, the converted amount is not subject to a 10% premature distribution penalty no matter what your age is.

### INVESTING YOUR ROTH IRA ASSETS

Assets in a Roth IRA can be invested in virtually any type of investment, including mutual funds, common stocks, corporate and government bonds, annuities and more.

The investments you select will depend on your individual needs, your tolerance for risk and your time horizon — how long you have until retirement. We can help you determine how much you'll need to meet your retirement goals, and can assist you in selecting appropriate funding vehicles for your Roth IRA.

### CONCLUSION

Investing in a Roth IRA can be an excellent way to help you fund the type of retirement you dream of. Your Financial Advisor can assist you in determining if a Roth IRA is the right IRA for you. He or she can also provide you with the information you need in order to make your investment decisions.

Start funding your IRA today. The sooner you act, the more time you'll have to accumulate the wealth you'll need in retirement and let the power of tax-deferred savings work for you.

<sup>1</sup> Total yearly contributions to all IRAs may not exceed \$5,000 for 2010 and \$5,000 for 2011, unless you are eligible for the catch-up contribution.

<sup>2</sup> You or your spouse must have earned income equal to or greater than the dollar amount you contribute.

<sup>3</sup> There are phase-out schedules for adjusted gross income for both single and joint filers. You should contact your RBC Wealth Management® Financial Advisor for more information.

RBC Capital Markets, LLC, does not provide tax or legal advice. We will work with your independent tax/legal advisor(s) to help create a plan tailored to your specific needs.

© 2011 RBC Capital Markets, LLC. All rights reserved.