Roth IRAs: Powerful Planning Tools for All Generations

By Richard Nelson, First Point Comprehensive Wealth Planning

The Roth IRA offers ample tax benefits for retirement investors of all ages. However, if current income restrictions associated with Roth IRAs prevent you from using one for your own planning purposes (see table to the right), consider taking steps to ensure that your children or other younger family members establish and fund a Roth IRA.

WHO IS ELIGIBLE TO CONTRIBUTE TO A ROTH IRA?	
For 2012, to be eligible for a...	Your income must be...*
Full contribution	$173,000 or less (if you are married and filing jointly) $110,000 (if you are single)
Partial contribution	Between $173,000 and $183,000 (if you are married and filing jointly) Between $110,000 and $125,000 (if you are single)
*income referst to your adjusted gross income, or AGI. Your AGI is your gross income minus deductions.	

A Roth IRA Refresher Course

Tax-free withdrawals — Roth IRA earnings accumulate and can be withdrawn free from federal taxes, provided you have held the account at least five years and satisfy one of the following qualified distribution requirements:

- You are at least 59½ years old.
- Your distribution is used for a qualified first-time home purchase, not to exceed a $10,000 lifetime limit.
- You die or suffer a permanent disability.

If you are under age 59½ but have held a Roth IRA for five years, you may make penalty-free withdrawals to help pay for qualified expenses, such as a first home or certain education costs.

Lifelong contributions — Unlike a traditional IRA, with a Roth IRA you can continue to make contributions past the age of 70½ if you have earned income.

No required distributions — For many, the most important feature of Roth IRAs is that they do not require the account holder to take distributions during his or her lifetime. This feature can prove very attractive to individuals who would like to use the Roth IRA as an estate planning tool.

Roth IRAs for Minors

Setting up a Roth IRA for a child can be one of your best long-term planning moves. Fortunately, there is no requirement that the same "earned income" is the money that is used to fund the IRA. So parents can establish and fund the IRA.

Wealth Transfer with a Roth IRA

Perhaps the Roth's greatest advantage is its potential as a wealth transfer instrument. Since distributions are not required during the account holder's lifetime, if the account holder is a child, he or she theoretically could have held the account for a lifetime never having tapped into it, and then passed it on to his or her beneficiaries upon death.

The key takeaway? The hidden value of the Roth IRA is in its exceptional wealth-building potential.

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