bcu
Wealth Advisors, LLC

The Roth IRA: A Tax-Advantaged Investment Vehicle to Consider

Author: Patrick Catania

There are many vehicles to choose from when building your portfolio and saving for retirement. There are 401(k) plans offered by some employers, Keogh plans available to self-employed individuals, traditional IRA accounts and Roth IRA accounts to name a few. In this piece, I want to focus on the Roth IRA. The Roth IRA is not a type of investment, or investment strategy, but rather an investment vehicle. It allows many taxpayers with earned income an opportunity to contribute some of their income to the Roth account, which has been granted special tax treatment by Congress and the IRS. The most important reason for considering a Roth IRA account is that it can provide you with tax-free money once you start making withdrawals past age 59 ½. Another great benefit is that you can open a Roth IRA at any age as long as you have earned income (you can't contribute more than your earned income). So as soon as your children get those first summer jobs or after school opportunities it's time to consider discussing a Roth IRA with them and helping to establish a foundation for long-term savings habits. It is equally as important for mom and dad to consider Roth accounts if they have not already done so.

The IRS allows a very broad selection of banking and investment products to be housed in your Roth account. Certificates of deposit, stocks and bonds, a myriad of mutual fund selections, precious metals, and more can be held within a Roth IRA. Only earned income can be contributed to a Roth IRA, but those contributions can accumulate earnings tax free for many years to come. Profits generated by your Roth investments remain tax free to you, if you adhere to the very simple rules laid out by the IRS.

In general, these are the rules for a Roth IRA:

- Most people can contribute up to $6,000 to a Roth IRA for tax year 2022. If you are more than fifty years old, the limit is $7,000. Note- this limit is the total a person can contribute to all IRAs for a year, not the amount you can contribute to each account.
- There are also contribution limits based on your household income and tax filing status. If your earned income is above the level designated by the IRS, you can make reduced contributions. If your earned income is above the maximum limit ($144,000 for single filers, $214,000 for married, filing jointly for tax year 2022), you cannot contribute at all.
- You can withdraw contributions tax-free at any time from a Roth IRA.
- Earnings from a Roth IRA can be withdrawn, but that may trigger taxes and penalties depending on your age, the age of the account, and other factors.
- Roth IRAs aren't subject to the required minimum distributions required from a traditional IRA or 401(k) starting at age 72.

We have all witnessed Congressional actions over the years which lower taxes for this group or that group, or provide such tax regulation which favors real property owners, defense contractors, etc. The Roth IRA is a powerful tool available to most people. My children started their Roth accounts as soon as they earned their first income from part-time jobs. They did not even have to use their earnings as very generous grandparents gifted them the money to start their Roth accounts! You should always consult with your tax advisor or financial planner to discuss the specific rules in more detail and determine whether opening a Roth IRA is right for you. If you would like to speak with a representative from BCU Wealth Advisors, please click here to request an appointment.

Disclosure

***All references to BCU Wealth Advisors will mean BCU Wealth Advisors, LLC, a wholly-owned subsidiary of BCU. Investment advisory services are offered through BCU Wealth Advisors, LLC; an investment adviser registered with the United State Securities and Exchange Commission and domiciled in the State of Illinois. Insurance products and services in California are provided by Insurance Services of BCU. Non-deposit investment products and services are offered through CUSO Financial Services, L.P. ("CFS"), a registered broker-dealer (Member FINRA / SIPC) and SEC-registered investment adviser. Products and recommended securities offered through BCU Wealth Advisors or CFS: are not NCUA/NCUSIF or otherwise federally insured, are not guarantees or obligations of the credit union, and may involve investment risk including possible loss of principal. Investment Representatives are registered through CFS. Baxter Credit Union has contracted with CFS to make non-deposit investment products and services available to credit union members. Financial Advisors are registered to conduct securities business and licensed to conduct insurance business in limited states. Response to, or contact with, residents of other states will be made only upon compliance with applicable licensing and registration requirements. The information in this website is for U.S. residents only and does not constitute an offer to sell, or a solicitation of an offer to purchase brokerage services to persons outside of the United States. This website is not to be directly or indirectly interpreted as a solicitation of investment advisory services to residents of a jurisdiction unless the firm is notice-filed, registered or is eligible for exemption from notice-filing or registration in that jurisdiction. The contents of this webpage are not to be copied, quoted, excerpted or distributed without express written permission of the firm. Nothing on this webpage is intended as legal, accounting, or tax advice, and is for informational purposes only.**