

Roth IRA Versus 401(k)

By: Randall P. Hallier, CFP®

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With the recent death of William Roth, sponsor of the IRA by his name, perhaps it's time to revisit this often overlooked investment tool to see where the U.S. investing public stands on its use for retirement accumulation.

With the introduction of Roth IRA legislation in 1997 came the opportunity for millions of Americans to accumulate retirement dollars on a tax-free basis and look forward to years, possibly even decades of income-tax-free income. Given this advantage, why is it that only about 1 in 5 Americans who are eligible to use a Roth IRA are doing so?

Confusion on the use of IRA's in general may be at the root of the problem. With traditional IRA's what you contribute may be tax deductible, while the account grows on a tax-deferred basis you will pay taxes on the income at the ordinary income tax rate upon withdrawals. Roth IRA's can; only be funded with after-tax dollars, the growth is tax-free and so is the income, provided you follow the rules. The first of these rules are, from the time you initially start a Roth you must not withdrawal from the account for 5 years. The second is this, withdrawals may not begin before 59½ years of age. Traditional IRA owners must begin mandatory withdrawals after attaining age 70½, with Roth owners they may hold the account indefinitely with no mandatory withdrawal requirements.

Any single tax filer under the income threshold of \$95,000 of modified adjusted gross income (AGI) or joint filer's under \$150,000 of (AGI) may contribute up to \$3000 in a Roth IRA in 2004. For those over 50 years of age, they may be able to contribute an additional \$500.00 under "catch-up" rules to IRA accounts. Consult your tax advisor to determine whether you are eligible for a "catch-up" contribution.

A Roth IRA is an almost perfect asset to pass on to heirs as well. At the time of death the spouse can roll the account into their own Roth IRA and take tax-free income after 59½ years of age. Additionally, they could let the account continue to grow without taxation and give the asset to children. In any case the income from the account won't be subject to income tax.

With these advantages, it's amazing that the Roth IRA isn't more popular.

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