Roth IRA

Wealth Management

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 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 $7,000[1] in 2024 ($6,500 in 2023) if you meet the following requirements:

- You have earned income or are married to someone with earned income.[2]
- Your modified gross income is below $218,000 for 2023 and $230,000 for 2024, if you're married and file a joint return.[3]
- Your modified gross income is below $138,000 for 2023 and $146,000 for 2024, if you're filing an individual return.[3]

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 indexed for inflation.

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.
- **Age limit for contributions** — There are no age restrictions for contributing to a Roth IRA.
- **No required minimum distributions** — There are no required minimum distributions when age 73 or at any time 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** — Distributions from Roth IRAs made prior to age 59½ may be subject to an additional 10% early withdrawal penalty. However, a number of exceptions exist to mitigate this penalty:
  - Qualified transfer or roll over to another retirement plan
  - Distributions made to your beneficiary after your death
  - Unreimbursed medical expenses that are greater than 7.5% of your adjusted gross income (AGI)
  - Distributions made because of a qualifying disability
  - Qualified reservist distributions
  - Substantially equal periodic payments
  - Involuntary distributions due to IRS levy on the account
  - Qualified birth or adoption distributions (QBOAD)
  - Survivors of domestic abuse (limited to $10,000, effective 2024)
  - Emergency withdrawal exception (limited to $1,000)
  - Principal place of residence in qualified disaster area (up to $22,000)
  - Qualified long-term care premium payments (limited to $2,500 annually)
  - Terminally ill

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.
- **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 may be in a higher tax bracket 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 prepay income taxes for your heirs. This may reduce the size of your taxable estate and may allow your beneficiaries to receive tax-free distributions.

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.

1. Total yearly contributions to all IRAs may not exceed $7,000 for 2024, unless you are eligible for the catch-up contribution.
2. You or your spouse must have earned income equal to or greater than the dollar amount you contribute.
3. 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. No information, including but not limited to written materials, provided by our firm should be construed as legal, accounting or tax advice.

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