Do You Have a Roth IRA? You Should – Here's Why.

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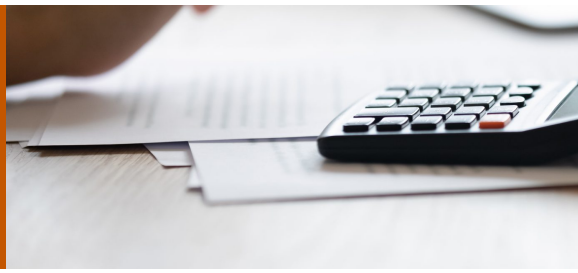

The Backdoor Roth strategy is a way for you to fund a Roth IRA when you are precluded from making a direct Roth IRA contribution due to income limitations.

The first step is to contribute to a traditional IRA instead of a Roth. Again, due to income limitations, this contribution will likely be nondeductible. For 2023 you can contribute up to $6,500 per person per year, or $7,500 if age 50 or older, assuming you have earned income of at least that much (those amounts are $7,000 and $8,000 for 2024).

Then, a couple of days later, you simply convert that contribution from a traditional IRA to a Roth IRA. Since the contribution wasn't a tax-deductible contribution in the first place, there is no tax on the conversion. Thus, via the Backdoor, you have funded a Roth IRA!

What are the benefits of a Roth? First, funding an IRA year-in and year-out is another way to save for retirement beyond your Practice's retirement plan. And even better, Roths have no "required minimum distributions," which means the money can remain in a tax-deferred environment longer and pass on intact to your heirs should you not need the money. And when the funds are withdrawn, they are completely tax-free as long as you are over the age of fifty-nine and a half and have maintained the account for at least five years (withdrawals of original contributions are always tax-free even if those requirements are not met). Finally, being able to withdraw funds from taxable accounts as well as from tax-free Roths promotes flexibility and tax diversification.

As with all tax opportunities, there are exceptions and caveats, most notably if you have an existing traditional IRA.

We recommend you consider how Roth IRAs can play a role in achieving your financial goals. Moreover, you might consider if there is a role for Roth 401(k)s in your overall retirement plan.

Please reach out to a member of your client service team with any questions.

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