# Acquaint yourself with the Roth IRA as an estate planning tool

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A Roth IRA can be a valuable estate planning tool, offering the opportunity for tax-free growth as long as it exists and requiring no distributions during your life, thus allowing you to pass on a greater amount of wealth to your family. While traditional IRAs are more common, there's no time like the present to consider how a Roth IRA might better help you achieve your estate planning goals.

**Roth vs. traditional IRA**

With a Roth IRA, you give up the deductibility of contributions for the opportunity to make tax-free withdrawals. This differs from a traditional IRA, where contributions may be deductible and earnings grow on a tax-deferred basis, but withdrawals (less any prorated nondeductible contributions) are subject to ordinary income taxes — plus a 10% penalty if you're under age 59½ at the time of the distribution.

With a Roth IRA, you can make tax-free withdrawals up to the amount of your contributions at any time. And withdrawals of account *earnings* are tax-free if you make them after you've had the Roth IRA for five years and you're age 59½ or older.

Also on the plus side, especially from an estate planning perspective, you can leave funds in your Roth IRA as long as you want. This differs from the required minimum distributions starting after age 70½ that generally apply to traditional IRAs.

So, with a Roth IRA, you can let the entire account grow tax-free over your lifetime for the benefit of one or more heirs. While the beneficiary will be required to take distributions, they'll be tax-free and can be spread out over his or her lifetime, allowing the remaining assets in the account to continue to grow tax-free.

**Limited contributions**

For 2017, the annual Roth IRA contribution limit is $5,500 ($6,500 for taxpayers age 50 or older), reduced by any contributions made to traditional IRAs. Your modified adjusted gross income ("MAGI") may also affect your ability to contribute, however.

In 2017, the contribution limit phases out for married couples filing jointly with MAGIs between $186,000–$196,000. The 2017 phaseout range for single and head-of-household filers is $118,000–$133,000.

**Conversion question**

If your income is too high to contribute to a Roth IRA, consider converting your traditional IRA into a Roth, effectively turning future tax-*deferred* potential growth into tax-*free* potential growth. When you do a Roth conversion, you have to pay taxes on the amount you convert. But this also has an estate planning benefit because you're paying taxes that your heirs might otherwise have to pay later. However, converting to a Roth IRA and triggering taxes on the ordinary income may not be appropriate in a situation where charities - which are not subject to income tax upon receipt of retirement assets - are named as the ultimate beneficiaries of all or a substantial portion of your traditional IRA.

If you have questions on how a Roth IRA may fit into your estate plan, please contact us.



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