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KEITH LATHROP

## Use Roth for retirement accounts

**My tax preparer again this year advised me to set up a Roth IRA. Please tell me again the benefits of setting up these accounts and the parameters. Also, can I transfer money from an existing IRA to a Roth account?**

—Hayward Ludens, via e-mail

HAYWARD, YOUR TAX preparer couldn't be more right. As far as I am concerned, anyone who is eligible to invest in a Roth should do it.

Let's walk through the basics: If you are under 50 and single with modified adjusted gross income (MAGI) of \$95,000 or less, or if you are a married couple filing a joint return with MAGI of \$150,000 or less, you can invest the maximum of \$4,000 per person in 2006. If you are over 50 the maximum annual contribution rises to \$5,000.

The main difference between a Roth and a traditional IRA is that money you put in a Roth has already been taxed—there is no tax break on your initial investment. With the traditional IRA, you typically invest pretax money, which produces an immediate tax break.

But with a Roth you can end up with a lot more in your pocket. That's because after the age of 59 1/2, as long as you have owned the Roth for at least five years, all your withdrawals will be completely tax-free. Compare that to a traditional IRA or 401(k), where every dollar you withdraw will be hit with income tax.

Also, there are no required "minimum distributions" once you reach 70 1/2. Unlike a traditional IRA, with a Roth the IRS does not require that you make withdrawals; you can pass along the entire account to your heirs, and they, too, will not have to pay tax. Any traditional IRA assets you leave to your beneficiaries will be hit with income tax.

The money you originally contribute to a Roth has no strings attached; you can withdraw that money at any time no matter how old you are or how long the money has been in the Roth, without any taxes or penalties. It's only the earnings on your contributions that have to stay in the Roth for at least five years and until you are 59 1/2 to be free of a 10 percent penalty and income tax.

For example, let's say you are under 50 and invest \$4,000 in each of the next three years, earning an average of 8 percent a year. After three years your Roth is worth \$14,024. The \$12,000 you invested is yours to withdraw at any time, without tax or penalty.

As for transferring an existing IRA into a Roth, you can do so, but only if your MAGI is below \$100,000 (for both single people and married couples). Note that you will have to pay ordinary income tax on whatever amount you convert. So you

might want to check with that tax preparer and decide if it makes more sense to convert smaller sums over a few years to dampen the tax bite.

### Ask Suze Orman

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Please include  
"Suze Orman Q&A"  
in the subject line.  
Suze will answer  
selected questions  
in this bimonthly column.

She regrets that  
unpublished questions  
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Suze Orman's latest  
book is *The Money  
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