THE SHOBE FINANCIAL GROUP

Helping People Pursue Life Goals Since 1983

What Baby Boomers Need to Know About Roth IRAs

A Roth IRA can be a valuable retirement planning tool for baby boomers and other investors who want tax-free income in retirement and greater flexibility in managing their retirement assets. While traditional IRAs provide an upfront tax deduction, Roth IRAs work in the opposite way: contributions are made with after-tax dollars, but qualified withdrawals—including investment earnings—are completely tax-free.

One of the biggest advantages of a Roth IRA is flexibility. Unlike traditional IRAs, Roth IRAs allow account owners to withdraw their original contributions at any time without taxes or penalties. In addition, Roth IRAs are not subject to required minimum distributions (RMDs) during the owner's lifetime. This means retirees who do not need the money for living expenses can allow their investments to continue growing tax-free and potentially leave a larger inheritance to their heirs.

To receive the full tax benefits of a Roth IRA, account holders generally must be at least age 59½ and must have had a Roth account open for at least five years before withdrawing earnings tax-free. While contributions can be accessed at any time, earnings may be subject to taxes and penalties if these requirements are not met.

For those who do not already have a Roth IRA, there are several ways to establish one. Investors with earned income can open a new Roth IRA and make annual contributions, subject to income limitations and IRS contribution limits. Another option is converting an existing traditional IRA into a Roth IRA. While this strategy requires paying income taxes on the converted amount, it can be beneficial for individuals who expect to be in the same or a higher tax bracket in retirement. Some investors choose to spread conversions over multiple years to manage the tax impact.

Timing can be especially important when considering a Roth conversion. Years with lower income—such as after retirement but before claiming Social Security benefits—may provide an opportunity to convert assets while remaining in a lower tax bracket. Since traditional retirement accounts are subject to future RMDs, converting some assets to a Roth IRA before RMDs begin may also help reduce future taxable income.

Baby boomers who are leaving an employer may also have the option of rolling funds from a 401(k), 403(b), or similar retirement plan into a Roth IRA. As with a traditional IRA conversion, taxes generally apply to any pre-tax assets rolled into a Roth account. However, moving retirement funds into a Roth IRA can eliminate future RMD requirements and provide greater control over retirement distributions.

"Backdoor Roth IRA," is a strategy often used by higher-income individuals who exceed the normal income limits for Roth contributions. This approach involves contributing to a traditional IRA and then converting those funds to a Roth IRA. The strategy remains legal under current tax law, although lawmakers have periodically discussed limiting its use.

Ultimately, the decision to use a Roth IRA comes down to a tradeoff: paying taxes now in exchange for tax-free withdrawals later. For many baby boomers, the benefits of tax-free income, no lifetime RMDs, and enhanced estate planning opportunities can make a Roth IRA an attractive addition to a retirement strategy. However, investors should carefully evaluate the tax consequences of conversions and consider how the strategy fits within their broader financial and retirement goals.

THE SHOBE FINANCIAL GROUP

8280 YMCA Plaza Dr, Building 4
Baton Rouge, LA 70810
(225) 763-701