

Bottom Line Tidbits
Roth 401(k) – Roth IRA on Steroids
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If you are at that age where you are closer to the end of your working years than the beginning, you're probably spending more time thinking about how you'll pay for those golden years.

The need for personal retirement planning and investing is increasingly capturing the attention of Americans – it's about time! Roth IRAs, a relatively new investment option, has been a retirement vehicle since 1997. Roth IRAs can offer several advantages for individuals or couples with adjusted income less than \$95,000 and \$150,000, respectively. For the 2005 tax year the maximum contribution amount is \$4,000 (\$4,500 if age 50 or older). For 2006 the Roth IRA contribution limit will be \$4,000 or \$5,000 if age 50 or older. Beginning in 2006 workers will have an opportunity to participate in a super-sized Roth retirement vehicle – a 401(k) Roth. Here is how the 401(k) Roth is super-charged – there is no maximum income limit as there is with the Roth IRA and the annual contribution limit for 2006 is \$15,000 or \$20,000 if age 50 or older.

Roth accounts foster the tax-free growth of investment funds while providing more flexible withdrawal rules. While Roth IRAs and the new 401(k) Roth offer some attractive features, they will not always be the best investment vehicle for everyone in every situation.

Some of the interesting features of Roth IRAs and the 401(k) Roth are:

- 1) if held for five years or more, all the distributions (including gains) will be tax-free – however you must be 59½ or older to avoid the early withdrawal penalty on the gains;
- 2) withdrawals of your contributions are always tax and penalty free;
- 3) contributions, based on earned income, can be made at any age, even after age 70 ½; and
- 4) the owner is not required, regardless of age, to take distributions from the Roth account.

The Roth accounts can be excellent vehicles for accumulating retirement funds. The longer the time period the Roth is held - the better. In fact, Roth accounts would be excellent assets to be “passed on” to the surviving spouse and/or other heirs. This is due to the extended potential compounding time period without any federal income tax liability in your hands and that of your heirs and because Roth accounts will not be considered income in respect of decedent (as with most traditional IRA and pension accounts).

In addition to employees, this new 401(k) Roth could be an excellent retirement vehicle for farmers and other business owners. Many business owners invest nearly all of their disposable income into the growing their business – only to realize as they enter their late 50's and 60's that they have limited funds stashed away for retirement (unless they are willing to sell their business).

If you like the concept of the Roth IRA – opting to super-size with the 401(k) Roth could be an excellent vehicle for enhancing your retirement funding.