



Roth IRAs: A Flexible Approach to Building Assets

Many workers who wish to save for retirement, homeownership, or other purposes may find that the Roth Individual Retirement Account (IRA) is an attractive way to save that offers important advantages. It can be an effective alternative for workers unable to obtain an Individual Development Account.

In a regular savings account, the interest earned on the account counts as taxable income. The interest earned in a Roth IRA, in contrast, is normally *not* taxable. In fact, all funds in a Roth IRA may be withdrawn tax-free so long as the account is at least five years old and:

- the worker has reached age 59½; **or**
- the worker or the worker's spouse, child, or grandchild is using IRA funds for a first-time home purchase (up to \$10,000 toward each purchase); **or**
- the worker is using IRA funds for higher education expenses; **or**
- the worker is disabled.

Roth IRAs also have several advantages over traditional IRAs. Most notably, withdrawals from traditional IRAs are taxable, while withdrawals from Roth IRAs aren't. In addition, traditional IRAs have substantial penalties for withdrawal before age 59½. (While there are exceptions, any early withdrawals still count as taxable income.) Traditional IRAs also require holders to begin withdrawals at age 70½, while Roth IRAs have no mandatory withdrawals at any age and also allow contributions after age 70½.

The main benefit of traditional IRAs is that workers can deduct the contributions to these accounts from their income, reducing their income tax liability. Roth IRAs do not provide this benefit. However, many low- and moderate-income workers — such as those who qualify for the EIC — don't need this tax advantage, either because they don't earn enough to owe income taxes or because they do owe income taxes but don't need an additional deduction.

While some workers may feel they don't earn enough to put any money aside for retirement, their EIC or CTC refund may provide enough funds to establish a Roth IRA. Minimum deposits to start a Roth IRA can be as low as \$100 to \$500. Roth IRAs can be established as bank certificates of deposit and other investment products. In 2009, workers can contribute up to \$5,000 to a Roth IRA; this limit is \$6,000 for workers over age 50.

Organizations Can Provide Counseling on Roth IRAs

The Community Action Program of Tulsa County (CAPTC) in Oklahoma offered clients the option to start an IRA that would also serve as an Individual Development Account (IDA). IRAs were the second most popular savings vehicle chosen by IDA participants. CAPTC provided clients with a two-hour seminar on IRAs, the advantages of Roth IRAs and how to invest the funds in an IRA. Several years later, CAPTC surveyed participants in the seminar who invested in IRAs and found that a large majority of them had maintained their IRA and over half had made additional contributions to their IRA, as well as also contributing to an employer-sponsored retirement plan. *For more information, contact Dick Jackson, CAPTC, (918) 382-3225 or tsk55@tulsacconnect.com.*