Roth vs. Traditional

Take Control of your Tax Situation

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Sentinel Benefits & FINANCIAL GROUP

Bios

James Dailey joined Sentinel Benefits & Financial Group in 2013 as a Registered Representative of Sentinel Securities and an Investment Advisor Representative of Sentinel Pension Advisors.

- University of Vermont – B.A. In Political Science and French
- Candidate for CFP® certification
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Brogan O'Connor joined Sentinel Benefits & Financial Group in 2013 as a Registered Representative of Sentinel Securities and an Investment Advisor Representative of Sentinel Pension Advisors.

- Connecticut College – B.S. in Economics
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James and Brogan offer fee-based investment management and financial planning services to businesses, individuals and their families. They provide education and guidance to plan participants to help maximize their retirement benefits in an effort to become retirement ready. For institutions, they work closely with plan sponsors to help implement custom retirement programs and employee benefits packages with a focus on Fiduciary governance support.

Agenda

- What are your distribution options?
- What are the differences between Roth and Traditional investment vehicles?
- Who can benefit from using Roth investment vehicles?
- What are the limitations of Roth investment vehicles?
- How can you manage those limitations?

Your Distribution Options

1. Leave the money in your former employer's retirement plan
2. Roll into an IRA
3. Roll into your new employer's retirement plan
4. Take a cash distribution

Roth vs. Traditional
What's the difference?

Traditional Vehicles

- Money is invested pre-tax
- Taxes are deferred until withdrawn
- Taxable as ordinary income rates at distribution, impacts tax bracket
- Can be rolled between employer plans and IRAs
- Subject to Required Minimum Distributions

Roth Vehicles

- Money is invested post-tax
- Qualified withdrawals are tax-free
- Can be rolled between like plans or <u>into</u> IRAs
- RMDs do not apply to Roth <u>IRAs</u>
- IRA contributions are subject to income limits

Who can benefit from Roth Vehicles?

- Before we begin a discussion of the possible benefits of using a Roth Vehicle, it is important to point out:
  - Every tax situation is different. Nothing within this presentation should be taken as advice for your specific situation. Always consult with your accountant before making a tax planning decision.
  - Roth Vehicles enjoy a number of tax protections. Although there is no indication that is likely to change, legislative risk is always possible.
  - Roth Vehicles can play an important role in retirement savings strategies but are not meant to replace traditional vehicles. Having different savings available to you will provide the greatest control over your financial situation in retirement.

Who can benefit from Roth Vehicles? (Cont'd)

- Roth Vehicles might provide significant long term tax savings for investors who are beginning their career, or who expect significant income growth before retirement.

- Investors with high incomes may still benefit from Roth Vehicles if their effective tax rate is reduced by some common credits or deductions.

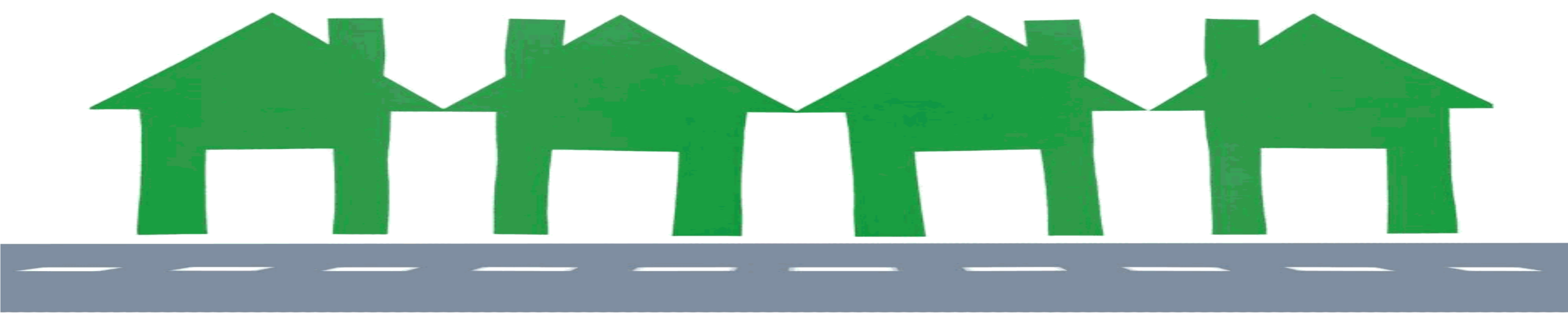
- Roth Vehicles might provide an advantage if you feel that tax rates will rise within your current or anticipated income bracket.

Who Can Benefit from Roth Vehicles? (Cont'd)

- Roth Vehicles also provide planning advantages:
  - Money held within a Roth IRA is not subject to Required Minimum Distributions. This does not extend to Roth 401k holdings.
    - In most Traditional Vehicles it is mandatory to begin taking distributions during the year in which you turn 70.5
    - This requirement does not exist for: Roth IRAs, or Spousal Inherited Roth IRAs
    - In most employer plans money is available for distribution beginning at age 59.5, meaning that you can move Roth money to an IRA to avoid RMDs without leaving your job
  - Money withdrawn from a Roth Vehicle won't increase your tax bracket in retirement. This can be very useful for managing retirement expenses
    - Medicare premiums are determined, in part, by your tax bracket and have a significant impact on your Social Security benefit
    - Qualified Roth distributions don't count as taxable income and therefore won't impact your bracket
    - By supplementing traditional distributions with Roth distributions you can reduce not just your tax bracket, but also the rate at which your traditional distributions are taxed

Who Can Benefit from Roth Vehicles? (Cont'd)

- Roth Vehicles can provide an important means of estate planning
  - Roth IRAs can be an invaluable tool for passing money onto spouses and children
  - A spouse that inherits a Roth IRA can use a Spousal Transfer to rename the account for him/herself
  - After a spousal transfer, the Roth IRA continues to avoid the Required Minimum Distribution rules
  - After inheriting a spousal IRA, new beneficiaries can be named, including children.
  - When inherited from a parent or non spouse RMDs will begin from the vehicle. They can be taken over the life expectancy of the inheritor, providing a tax free annuity for the beneficiaries.
- Roth Vehicles don't have an age limitation
  - Contributions to traditional IRAs must stop at age 70.5
  - As long as you earn income you can contribute to a Roth Vehicle (subject to income limitations)



What are the limitations of Roth Vehicles?

- One of the primary limitations of Roth IRAs is the income limit imposed on contributions. The following table is from the IRS website:

If your filing status is...	**And your modified AGI is...**	**Then you can contribute...**
married filing jointly or **qualifying widow(er)**	< $184,000	up to the limit
	≥ $184,000 but < $194,000	a reduced amount
	≥ $194,000	zero
married filing separately and you lived with your spouse at any time during the year	< $10,000	a reduced amount
	≥ $10,000	zero
single, **head of household**, or **married filing separately** and you did not live with your spouse at any time during the year	< $117,000	up to the limit
	≥ $117,000 but < $132,000	a reduced amount
	≥ $132,000	zero

Roth Vehicle Limitations (Cont'd)

- An example of the "reduced" contribution is as follows:
  - John and Jane are married, filing jointly. They have a modified adjusted gross income of $189,000 and are both 50 years old
  - To figure out their reduced contribution begin by subtracting $184,000 from MAGI. The result is $5,000
  - Divide this difference by $10,000 for those filing jointly: 0.5
  - Multiply 0.5 x $5,500 (Roth IRA contribution limit for 2016). The reduced contribution limit is $2,750
- The short version of the above: ask your accountant for your limit if your income exceeds the limits on the previous table
- Roth Vehicles must be held for 5 years before earnings withdrawals are tax free
- Roth IRAs cannot be rolled to employer sponsored plans
- Roth 401k savings are not exempt from RMDs

How can I work around these limitations?

- One of the easiest ways to work around the income limitation for Roth contributions is to take advantage of your employer sponsored plan.
- If you can't make Roth contributions within your plan it may be possible to convert your existing savings within an IRA
  - ALWAYS speak with your accountant before using this strategy. If planned incorrectly it can have serious tax implications
  - In many plans if you are above the age of 59.5 you can take distributions from your employer plan without penalty
  - Roll the amount that you want to convert from your employer plan to a traditional IRA. Once the money is in a traditional IRA you will be able to convert the balance to Roth money by paying income taxes on that balance
  - The 5 year holding period begins when you make the conversion
  - In certain circumstances if it is necessary a Roth conversion can be undone. This is a slightly more complex process, and is best avoided by careful planning

Summary

- Roth Vehicles are an important tool in a well rounded retirement portfolio
- They should be used in conjunction with Traditional Vehicles to be most effective
- Roth Vehicles provide important benefits not just for the person saving, but also for their dependents and beneficiaries
- Creating meaningful Roth savings requires careful planning, especially for high income households. Work with an investment professional and your accountant to create a saving strategy

Next Steps

- Reach out to your plan contact or Advisor at Sentinel
- Figure out what mix of Traditional and Roth savings will give an optimal outcome
  - If necessary a retirement income and goal analysis can be performed
- Always check with your accountant to avoid unexpected tax implications.

Questions?