How a Roth IRA Works

Account Owner

- Contributions are not tax deductible.
- Total annual contribution is limited.[1]
- Annual contribution limits are coordinated with any traditional IRA.

ROTH IRA ACCOUNT

- May be opened anytime between January 1 of current year until due date of tax return.
- Traditional IRA can be converted to a Roth IRA.[2]
- Earnings accumulate tax deferred.
- Account is usually self-directed (owner controls investments).
- A separate spousal Roth IRA may be established for a spouse with little or no earned income.

QUALIFIED DISTRIBUTIONS

- Qualified distributions are tax-free if a five-year holding period is met and one of the following applies: the owner is over 59½, dies, becomes disabled, or the distribution is for up to $10,000 of qualified first-time homebuyer expenses.

RETIREMENT

- Assuming compensation, contributions may continue to any age.
- No mandatory age for starting withdrawals.
- No minimum distributions required while owner is alive.
- Qualified distributions are received free of federal income tax.

DEATH

- Value of Roth IRA is included in owner's federal gross estate.
- If five-year holding period is met, beneficiaries receive funds free of federal income tax.
- A surviving spouse may choose to treat an inherited Roth IRA as his or her own.

[1] For 2025,the maximum annual contribution is the lesser of $7,000 ($14,000 for a married couple) or 100% of compensation

[2] The conversion is a taxable event. Gross income is increased by previously deducted contributions, plus net earnings or minus net losses. A completed conversion may not be reversed.

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