

Morgan & Morgan Insurance

Three Advantages a Roth IRA May Offer Your Estate Plan

Many may not consider the possibilities that a Roth IRA can offer an estate plan. But, there are three advantages that a Roth IRA can offer if your estate value is under the Applicable Exclusion Amount (\$1.5 million in 2005, and \$2 million in years 2006 & 2007) and if one of your planning goals is to leave as much money as possible to your heirs.

Defining The Roth IRA

Simply stated, the Roth IRA is an IRA that individuals make contributions to on an after tax basis (contributions to a traditional IRA may be made with pre-tax money). When qualified withdrawals are taken¹, they are totally free from federal income tax (state income tax treatment may vary depending upon your state of residence).

Estate Planning Benefits of a Roth IRA

There are three.

1.) Passing income tax-free money to an heir. The estate planning benefits begin with the Roth IRA's ability to pass money to a beneficiary income tax-free on qualified distributions at your death, provided the Roth IRA satisfies a five-year holding period.

2.) The Roth IRA avoids forced depletion at old age. Due to minimum distribution requirements (forced distributions at age 70 ½), many traditional IRAs may be substantially depleted if their owners live into their late 80s or beyond. Since a Roth IRA faces no such requirements, it can continue to benefit from tax deferral each year with no requirement to take distributions.

3.) Contributions may continue through any age. Provided eligibility requirements are met and that you have compensation (as defined by the Internal Revenue Code).

With the Roth IRA, you may have the opportunity to save more money for your heirs than with a traditional IRA, especially if you live a long time. Do remember that IRA money, including money in a Roth IRA, passed to heirs will be included in your gross estate for federal estate tax purposes.

Meet with your tax advisor and financial professional to discuss your personal situation and how a Roth IRA strategy may help you to meet your goals.

¹Tax-Free Roth IRA withdrawals of earnings permitted five years after first contribution creating account. Once the five year requirement is met, distributions will be free from federal income taxes if taken: (1) after age 59 1/2; (2) on account of disability or death; or (3) to pay up to \$10,000 of the expenses of purchasing a first home. Withdrawals of earnings made earlier than five years after the first account contribution creating the account for purposes not aforementioned, will be subject to a 10% IRS penalty and taxed at ordinary income tax rates.

Morgan & Morgan Insurance

The information contained in this document is not intended to (and cannot) be used by anyone to avoid IRS penalties. This document supports the promotion and marketing of Roth IRAs. You should seek advice based on your particular circumstances from an independent tax advisor.

L0201B5BK(exp1207)ENT-LD