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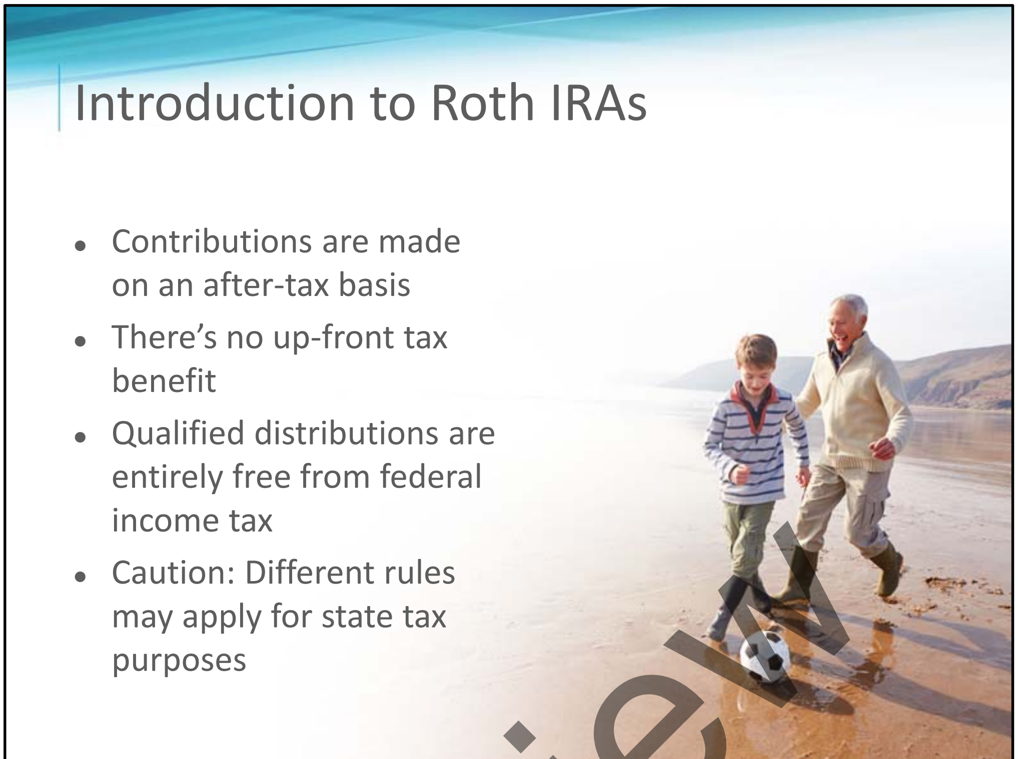

Roth IRAs have become popular retirement savings vehicles since their introduction in 1998. In 2018, approximately 22.5 million, or 17.6%, of U.S. households, had Roth IRAs. [Source: 2019 Investment Company Fact Book.]

<CLICK> Contributions to Roth IRAs are made on an after-tax basis, so

<CLICK> there's no up-front tax benefit.

<CLICK> But if certain conditions are satisfied, distributions from Roth IRAs are totally free from federal income taxes. It's this potential for tax-free withdrawals that has made Roth IRAs so popular.

<CLICK> Bear in mind that different state rules may also apply.

<CLICK>

Traditional IRA vs. Roth IRA

Traditional IRA

- Can make annual contribution if you have taxable compensation
- Deductible contributions depend on income, filing status, and coverage by retirement plan
- Can make after-tax (nondeductible) contributions
- Distributions subject to federal income tax, except for after-tax contributions
- Distributions prior to age 59½ may be subject to additional 10% penalty tax
- Distributions required after 72
- Funds grow tax deferred

Roth IRA

- Can make annual contribution if you have taxable compensation
- Ability to contribute depends on income level and filing status
- All contributions are after-tax (no up-front deduction)
- Qualified distributions are entirely free from federal income taxes
- For nonqualified distributions, earnings subject to federal income tax and 10% penalty tax may apply if under age 59½
- No lifetime required distributions
- Funds grow tax deferred/tax free

Practically anyone can open and make annual contributions to a traditional IRA. <CLICK> The only requirement is that you must have taxable compensation.

<CLICK> Whether or not you can deduct your contributions, though, depends on your income, filing status, and whether you or your spouse is covered by an employer retirement plan.

<CLICK> But even if you're not eligible to deduct your contributions, you can make *nondeductible* contributions to a traditional IRA. This is important, and I'll touch upon this again later. Nondeductible contributions are often called "after-tax" contributions.

<CLICK> When you withdraw funds from your traditional IRA, the entire distribution is taxable, except for your after-tax contributions. That is, your deductible contributions, and any IRA earnings, are taxed when you withdraw them. And if you're not yet 59½, a 10% early distribution penalty tax may also apply to the taxable amount.

<CLICK> Distributions are required once you reach age 72.

<CLICK> With a Roth IRA, just as with a traditional IRA, you must have taxable compensation to make annual contributions.

<CLICK> But not everyone can make annual contributions to a Roth IRA. Roth IRA contributions are phased out for individuals with higher incomes. Whether you can contribute, and whether you can make a full or partial contribution, depends on your modified adjusted gross income and your income tax filing status.

<CLICK> Unlike traditional IRAs, contributions to a Roth IRA are always made with after-tax dollars — you don't get a deduction for your contributions. When you make a withdrawal from your Roth IRA, your contributions always come out tax free. And if your withdrawal is "qualified," earnings in your Roth IRA are also tax free.

<CLICK> You aren't required to take any distributions during your lifetime.

<CLICK> With both traditional and Roth IRAs, funds grow tax deferred, and for Roth IRAs, potentially tax free.

<CLICK>

If you meet certain conditions, your withdrawals from a Roth IRA will be completely free from federal income tax.

<CLICK> To qualify, you must satisfy a five-year holding requirement,

<CLICK> and you generally have to reach age 59½ before making the withdrawal.

<CLICK> Even if you haven't reached age 59½, distributions will be tax free if you satisfy the five-year holding period requirement and you make the withdrawal either because of a disability, or

<CLICK> to pay certain first-time homebuyer expenses.

<CLICK> Payments after your death are also qualified if the five-year holding period is satisfied.

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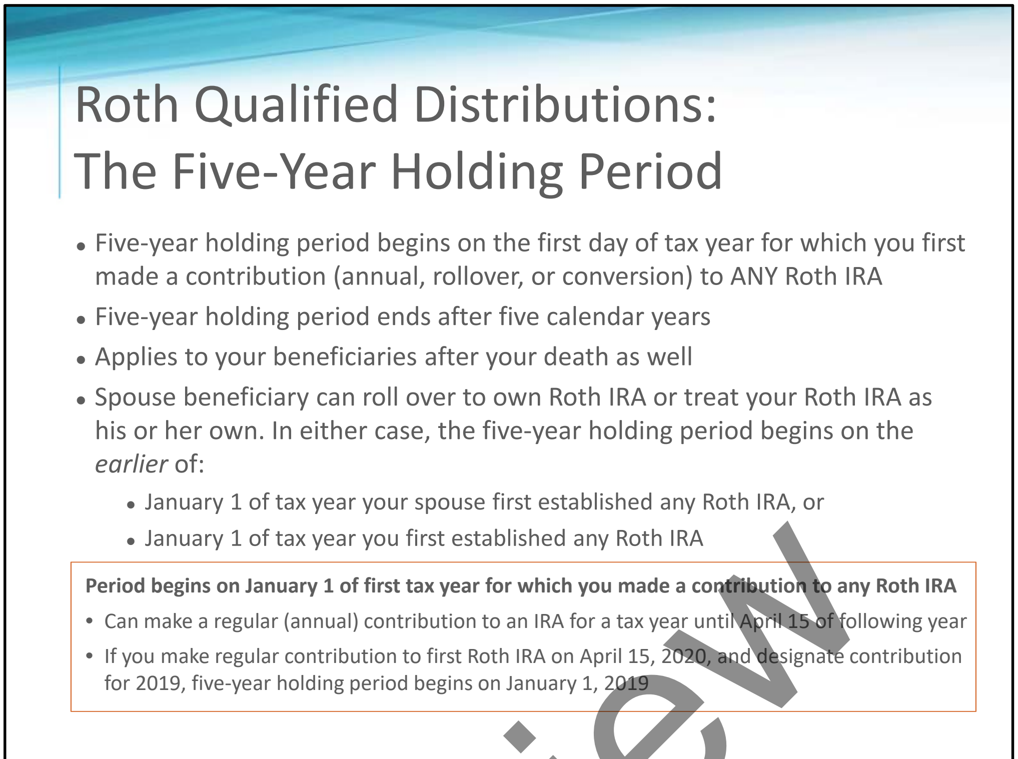

The five-year holding period begins on January 1 of the tax year for which you first make a contribution to ANY Roth IRA, and

<CLICK> ends after five full calendar years.

You have only one five-year holding period for all Roth IRAs you own for calculating qualified distributions. However, Roth IRAs you inherit are subject to different rules.

<CLICK> The five-year holding period also applies to your beneficiaries after your death. So even though your death is a qualifying event, your beneficiaries will not be able to receive tax-free distributions from your Roth IRA until the five-year holding period is satisfied.

<CLICK> Spouse beneficiaries have additional options. Your spouse can roll your Roth IRA proceeds into his or her own Roth IRA. If your spouse is your sole beneficiary, your spouse can also treat your Roth IRA as his or her own. In either case, your spouse will be able to use either your holding period or his or her own, whichever is more favorable. That is, the five-year holding period will begin on January 1 of the tax year your spouse first established any Roth IRA or, if earlier, January 1 of the tax year for which you first established any Roth IRA.

As I've said, the five-year holding period begins on January 1 of the *tax* year for which you first establish ANY Roth IRA.

Remember that you generally have until April 15 to make an annual contribution to an IRA for the previous tax year.

So, for example, if you make your first contribution to a Roth IRA on April 15, 2020, and you designate that contribution for the 2019 tax year, your five-year holding period will begin on January 1, 2019.

Now let's look at some specific examples of how the qualified distribution rules work.

<CLICK>