

Multiple Ways to Fund a Roth IRA



By Melissa COX, CRPC®
Financial Advisor

ROTH IRAS ARE POPULAR RETIREMENT SAVINGS VEHICLES, mainly due to their potential to deliver tax-free distributions. Individuals may fund a Roth IRA by making a direct contribution, converting funds from a traditional IRA or completing a rollover or conversion from an employer-sponsored retirement plan. Whether a Roth IRA makes sense for you and how to fund it are two questions that require careful consideration and an understanding of your financial condition and retirement savings objectives.

In general, you can make a 2020 contribution of up to \$6,000 annually to an IRA—traditional, Roth or a combination of the two. If you’re over age 50, you may make an additional \$1,000 “catch-up” contribution. However, your ability to make an annual contribution to a Roth IRA may be limited, or eliminated, depending on your income. The phase-out of Roth contributions is based on individuals’ Modified Adjusted Gross Income, or MAGI, as shown below:

As the chart demonstrates, higher income earners are eventually phased out of qualifying to contribute to a Roth IRA. But there is a workaround for those folks —

FILING STATUS	2020 MAGI	2021 MAGI	MAXIMUM ANNUAL CONTRIBUTION
Single, head of household or married filing separately (if you didn't live with spouse during year.)	Less than \$124,000	Less than \$125,000	\$6,000 (\$7,000 if 50 or older)
	\$124,000 up to \$139,000	\$125,000 up to \$140,000	Contribution is reduced
	\$139,000 or more	\$140,000 or more	No contribution allowed
Married filing jointly or qualifying widow(er)	Less than \$196,000	Less than \$198,000	\$6,000 (\$7,000 if 50 or older)
	\$196,000 up to \$206,000	\$198,000 up to \$208,000	Contribution is reduced
	\$206,000 or more	\$208,000 or more	No contribution allowed
Married filing separately (if you lived with spouse at any time during year)	Less than \$10,000	Less than \$10,000	Contribution is reduced
	\$10,000 or more	\$10,000 or more	No contribution allowed

namely, a Roth conversion. Regardless of your filing status or how much you earn, you can convert all or a portion of a traditional IRA to a Roth IRA. You might owe income tax upon the conversion, so consult on the advisability of conversion with your accountant or financial planner before implementing this strategy. The timing and amount of your conversions can play an important role in your retirement and tax planning.

What if you don't have a traditional IRA? You can still benefit from a Roth conversion

In general, you can make a 2020 contribution of up to \$6,000 annually to an IRA—traditional, Roth or a combination of the two.

You can convert all or a portion of a traditional IRA to a Roth IRA.

by first establishing a traditional IRA and making a non-deductible contribution, then immediately converting the after-tax funds to a Roth. In this scenario, no income tax is due on the conversion. This unique planning strategy is known as a “back door” Roth IRA.

In addition to a direct contribution or a conversion from a traditional IRA, you can fund a Roth IRA by converting or rolling over funds from an employer-sponsored plan, such as a 401(k). This is typically reserved for those who have severed employment with a company, as often plan rules do not allow for in-service rollovers or distributions. If there are amounts held in a Roth employer plan account, those funds may be rolled directly to a Roth IRA. Or you may convert pre-tax employer plan assets to a Roth IRA; like a traditional IRA conversion, any pre-tax amounts converted will be subject to income tax in the year of the conversion.

Is a Roth IRA right for you? It depends on several factors, including your current and projected future income tax rates, the length of time you can leave the funds in the Roth IRA without taking withdrawals, your state’s tax laws and how you’ll pay the income taxes due at the time of the conversion. Given the complexity of the rules surrounding Roth IRAs and the individual nature of one’s situation, it is wise to enlist the help of a qualified financial planner and tax advisor to figure out the best plan for you.

IMPORTANT DISCLOSURES

The information included in this document is for general, informational purposes only. It does not contain any investment advice and does not address any individual facts and circumstances. As such, it cannot be relied on as providing any investment advice. If you would like investment advice regarding your specific facts and circumstances, please contact a qualified financial advisor.

Any investment involves some degree of risk, and different types of investments involve varying degrees of risk, including loss of principal. It should not be assumed that future performance of any specific investment, strategy or allocation (including those recommended by HBKS® Wealth Advisors) will be profitable or equal the corresponding indicated or intended results or performance level(s).

Past performance of any security, indices, strategy or allocation may not be indicative of future results.

The historical and current information as to rules, laws, guidelines or benefits contained in this document is a summary of information obtained from or prepared by other sources. It has not been independently verified, but was obtained from sources believed to be reliable. HBKS® Wealth Advisors does not guarantee the accuracy of this information and does not assume liability for any errors in information obtained from or prepared by these other sources.

HBKS® Wealth Advisors is not a legal or accounting firm, and does not render legal, accounting or tax advice. You should contact an attorney or CPA if you wish to receive legal, accounting or tax advice.



Melissa Cox, CRPC®

Financial Advisor, HBKS® Wealth Advisors

Melissa Cox, CRPC® is a financial advisor in the Youngstown, Ohio office of HBKS Wealth Advisors and has worked in the financial services industry since 2007. She helps clients formulate and execute financial plans that help them reach their financial objectives. Her comprehensive planning strategies utilize sound financial management principals to help clients navigate their financial journey. Contact Melissa at 330-758-0428, or by email at mcox@hbkswealth.com.

Investment advisory services are offered through HBK Sorce Advisory LLC, doing business as HBKS® Wealth Advisors. NOT FDIC INSURED - NOT BANK GUARANTEED - MAY LOSE VALUE, INCLUDING LOSS OF PRINCIPAL - NOT INSURED BY ANY STATE OR FEDERAL AGENCY