

## GET STARTED NOW ON THE ROTH IRA 5-YEAR WAITING PERIOD

As long as certain requirements are met, funds deposited in a Roth IRA (whether a Roth contributory IRA or a Roth conversion IRA) will never be subject to federal income tax again. "Qualified distributions" from a Roth IRA are entirely income tax-free.

The two requirements for a "qualified distribution" from a Roth IRA are: (a) the taxpayer must have had a Roth IRA account open for at least five years (the 5-year rule) and (b) the taxpayer must be at least 59½ years of age at the time of the distribution.

The 59½ year-old requirement does not apply to distributions following the account owner's death or disability, or up to \$10,000 for a first-time homebuyer's purchase. However, the 5-year rule still applies in these cases.

### **The 5-year rule is measured by the first Roth account opened.**

For a Roth contributory IRA, the beginning date for the 5-year rule goes back to January 1 of the year for which the contribution is made. So far example, if the taxpayer makes a Roth contribution on April 10, 2011 and designates it a 2010 contribution, the beginning date is January 1, 2010. (You can make a Roth IRA contribution for the current year up to April 15<sup>th</sup> of the following year.)

For a Roth conversion IRA, the beginning date for the 5-year rule goes back to January 1 of the year in which the conversion takes place.

The first day you can take a distribution that satisfies the 5-year rule is January 1 of the fifth year after the year of the first contribution or conversion. In the example above, since the beginning date is January 1, 2010, the first day you can take a distribution that satisfies the 5-year rule is January 1, 2015.

Once you have satisfied the 5-year rule for any Roth IRA account, then you have met the 5-year rule for all future distributions from any Roth IRA account.

If you ever plan or hope to open a Roth IRA account, it is in your best interest to get the "5-year clock" started as soon as possible. For example, if you are eligible to fund a Roth contributory IRA, you could start right now with a modest amount (say, \$1,000 or less). If you are not eligible to make a Roth contribution, you could do a modest Roth conversion. Even if you do not make another Roth contribution or conversion for ten years, as of January 1, 2015, you will have satisfied the 5-year rule as to all future Roth contributions or conversions.



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