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# The Intersection Where Annuity and Roth Meet

Roth accounts are great strategies for retirement since each has their own benefits and drawbacks. Many have heard of and may even have a Roth 401(k) or a Roth IRA—but have you ever considered a Roth annuity to reduce the financial risks facing your retirement?

A photograph showing a person's hands and arms as they work at a desk. They are looking at a laptop on the left and a large open document or book on the right. The background is slightly blurred, showing some greenery.

# Reducing Risk with a Roth Annuity: An Overview

## What is a Roth Annuity?

A Roth annuity is a type of annuity that allows individuals to save for retirement on a tax-advantaged basis. It is named after the Roth IRA (Individual Retirement Account), which is another type of retirement account that shares similar tax features. Like a traditional annuity, a Roth annuity is a contract between an individual and an insurance company, where the individual makes contributions, and the insurance company guarantees a stream of income for the individual's retirement.

One of the key differences between a Roth annuity and a traditional annuity is how they are taxed. In a traditional annuity, contributions are made with pre-tax dollars, and the investment growth is tax-deferred. However, when withdrawals are made during retirement, they are taxed as ordinary income. On the other hand, in a Roth annuity, contributions are made with after-tax dollars, and the investment growth and withdrawals are tax-free, provided certain conditions are met.

## How Does a Roth Annuity Work?

A Roth annuity works in a similar way to other types of annuities. Individuals typically make contributions to the Roth annuity account over a period, either as a lump sum or through regular

payments. The insurance company then invests these contributions in a variety of investment options, such as stocks, bonds, or real estate, based on the individual's risk tolerance and investment goals. The investment growth accumulates on a tax-deferred basis, meaning that individuals do not have to pay taxes on the growth until they withdraw the funds.

One of the main benefits of a Roth annuity is that qualified withdrawals are tax-free. To be considered qualified, withdrawals must meet certain conditions, such as the individual being at least 59½ years old and the account being open for at least five years. If these conditions are met, the individual can withdraw both the contributions and the investment growth without owing any taxes on them. This can be a significant advantage, as it allows individuals to enjoy tax-free income during retirement, which can help to maximize their retirement savings. It's important to note that unlike a traditional annuity, which has required minimum distributions (RMDs) starting at age 72, Roth annuities do not have RMDs during the lifetime of the original owner. This means that individuals can continue to let their investments grow tax-deferred for as long as they want, which can be advantageous for estate planning purposes and passing on wealth to heirs.

# Two Ways to Obtain a Roth Annuity:

## Conversion and Direct Purchase



A Roth annuity is a unique financial product that combines the features of a Roth account with those of an annuity. It provides the opportunity to save for retirement with after-tax dollars, allowing for tax-free withdrawals during retirement. There are two primary ways to obtain a Roth annuity: through conversion or direct purchase.

### **1. Conversion of Traditional Annuity to Roth Annuity:**

One way to obtain a Roth annuity is through the conversion of a traditional annuity to a Roth annuity. This involves transferring the funds from a traditional annuity, which is typically funded with pre-tax dollars, into a Roth annuity, which is funded with after-tax dollars. The conversion is treated as a taxable event, meaning that the amount converted is subject to income taxes in the year of the conversion. However, once the funds are converted to a Roth annuity, the growth and distributions from the annuity are tax-free during retirement, if certain requirements are met.

To convert a traditional annuity to a Roth annuity, the annuity owner must meet certain eligibility requirements, including having a modified adjusted gross income (MAGI) below a certain threshold. It's important to consult with a tax professional or financial advisor to understand the tax implications, eligibility requirements, and potential benefits of converting a traditional annuity to a Roth annuity.

### **2. Direct Purchase of a Roth Annuity:**

The second way to obtain a Roth annuity is through a direct purchase. This involves directly purchasing a Roth annuity from an insurance company or financial institution. With a direct purchase, the individual makes after-tax contributions to the Roth annuity and the annuity grows tax deferred. During retirement, withdrawals from the Roth annuity are generally tax-free, as long as certain requirements are met.

Direct purchase of a Roth annuity does not require converting from a traditional annuity,

and there are no income limits or eligibility requirements based on income. This makes it a viable option for individuals who may not be eligible for a Roth IRA due to income limitations or who prefer the features of an annuity for their retirement savings strategy, such as guaranteed income or death benefit protection.

It's important to note that Roth annuities, whether obtained through conversion or

direct purchase, have their own set of features, benefits, and risks, and it's crucial to thoroughly understand the terms and conditions of the annuity contract, including fees, surrender charges, and potential tax implications. Consulting with a licensed insurance agent, financial advisor, or tax professional can provide guidance and help determine if a Roth annuity is suitable for your individual financial goals and circumstances.

## Roth v. Roth v. Roth



With Roth accounts becoming more and more popular for retirement savings and investing, it is important to understand the basic differences each account as in comparison to a Roth annuity.

### Tax Treatment of Contributions

One of the main differences between a Roth annuity and other Roth accounts is how contributions are treated for tax purposes. In a Roth annuity, contributions are made with after-tax dollars, meaning that individuals have already paid taxes on the contributions before depositing them into the annuity. This allows for tax-free withdrawals of both contributions and

investment growth during retirement if certain conditions are met.

On the other hand, in a Roth IRA and Roth 401(k), contributions are also made with after-tax dollars, but they are held in separate accounts and not combined with an annuity contract. Roth IRA contributions have annual contribution limits set by the IRS, while





Roth 401(k) contributions are made through employer-sponsored retirement plans and are subject to higher contribution limits set by the IRS. Like a Roth annuity, withdrawals from Roth IRA and Roth 401(k) accounts are tax-free during retirement if certain conditions are met.

### **Withdrawal Rules and Required Minimum Distributions (RMDs)**

Another key difference between a Roth annuity and other Roth accounts is the withdrawal rules and required minimum distributions (RMDs). Roth annuities do not have RMDs during the lifetime of the original owner, which means that individuals can let their investments grow tax-deferred for as long as they want, providing more flexibility in retirement planning and estate planning. This contrasts with Roth IRA and Roth 401(k), which have RMDs starting at age 72, requiring individuals to withdraw a certain percentage of their account balance annually, which may affect their retirement income strategy.


Additionally, Roth annuities typically offer the option to receive guaranteed income for life, like a traditional annuity, providing a reliable

source of income during retirement. This is not a feature of Roth IRA or Roth 401(k), which primarily serve as investment accounts and do not provide guaranteed income streams.

### **Investment Options and Flexibility**

Roth annuities and other Roth accounts also differ in terms of investment options and flexibility. Roth annuities are typically offered by insurance companies and may provide a variety of investment options, such as stocks, bonds, and real estate, based on the individual's risk tolerance and investment goals. The investment growth in a Roth annuity is tax-deferred, allowing for potential compound growth over time.

In contrast, Roth IRA and Roth 401(k) accounts are self-directed investment accounts, allowing individuals to invest in a wider range of options, including stocks, bonds, mutual funds, and more. This provides more flexibility in terms of investment choices and may allow for more control over the investment strategy. However, it also requires individuals to actively manage their investments and be knowledgeable about investing.



# Roth Contribution Limits and Eligibility

Roth accounts are popular retirement savings options due to their unique tax advantages. They allow individuals to save for retirement with after-tax dollars and enjoy tax-free withdrawals during retirement. Among the different types of Roth accounts, such as Roth annuities, Roth IRA, and Roth 401(k), understanding the contribution limits and eligibility criteria is crucial for individuals to make informed decisions and maximize their retirement savings.

## **Contribution Limits for Roth Annuities**

Unlike Roth IRA and Roth 401(k), Roth annuities

do not have specific contribution limits set by the Internal Revenue Service (IRS) because they are not considered qualified retirement plans. Instead, the contribution limits for Roth annuities are typically determined by the insurance companies that offer them. This means that different annuity contracts may have varying contribution limits.

It's important for individuals to review the specific terms of their Roth annuity contract to understand the contribution limits imposed by the insurance company. These limits may be based on factors such as the individual's age,

income, and the type of annuity contract. It's also worth noting that contribution limits for Roth annuities are separate from contribution limits for other retirement accounts, such as Roth IRA and Roth 401(k), and do not affect each other.

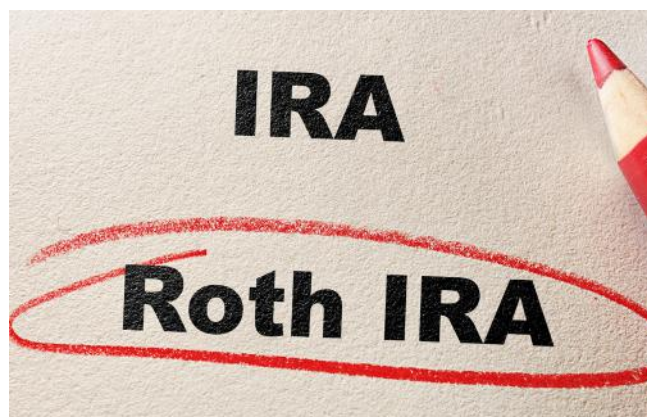
## Contribution Limits for Roth IRA and Roth 401(k)

Roth IRA and Roth 401(k) accounts, on the other hand, have specific contribution limits set by the IRS. As of the year 2023, the annual contribution limit for Roth IRA is \$6,500 for individuals who are 50 years or older, and \$6,000 for individuals who are below 50 years. However, these limits are subject to change, and it's essential to check the latest contribution limits set by the IRS.

For Roth 401(k) accounts, the contribution limits are higher. As of 2023, the annual contribution limit for Roth 401(k) is \$19,500 for individuals who are below 50 years, and an additional catch-up contribution of \$6,500 is allowed for individuals who are 50 years or older, bringing the total contribution limit to \$26,000. It's worth noting that the total combined contribution limit for all types of 401(k) contributions, including both traditional and Roth 401(k), is \$58,000 for individuals below 50 years, and \$64,500 for individuals who are 50 years or older.

## Eligibility Requirements for Roth Annuities

Unlike Roth IRA and Roth 401(k), which have income limits for eligibility, Roth annuities do not have specific income limits. This means that individuals of any income level can contribute to a Roth annuity, subject to the contribution limits imposed by the insurance company offering the annuity.



## Eligibility Requirements for Roth IRA

1. **Age Requirement:** There is no minimum age requirement to open a Roth IRA. Individuals of any age can open and contribute to a Roth IRA, as long as they have earned income (such as wages, salaries, tips, commissions, and self-employment income).
2. **Income Limit:** Roth IRA has income limits for eligibility, which means that not all individuals may be able to contribute to a Roth IRA. As of 2023, the eligibility criteria for Roth IRA are as follows:



- For individuals filing as single or head of household: The ability to contribute to a Roth IRA starts to phase out at an income of \$125,000 and becomes completely phased out at an income of \$140,000.
  - For married couples filing jointly: The ability to contribute to a Roth IRA starts to phase out at an income of \$198,000 and becomes completely phased out at an income of \$208,000.
3. Contribution Limit: The annual contribution limit for Roth IRA is \$6,500 for individuals who are 50 years or older, and \$6,000 for individuals who are below 50 years. However, these limits are subject to change, and it's essential to check the latest contribution limits set by the IRS.



## Eligibility Requirements for Roth 401(k)

1. Employer-sponsored Plan: Roth 401(k) is a type of retirement account offered by employers. To be eligible for a Roth 401(k), an individual must be employed by a company that offers a Roth 401(k) plan as part of their employee benefits package.
2. Employer's Plan Requirements: Employers may have additional requirements for employees to be eligible for their Roth 401(k) plan, such as a minimum age or a minimum length of service with the company. These requirements may vary depending on the employer's plan, and it's important to review the specific terms of the employer's plan.
3. Contribution Limit: The annual contribution limit for Roth 401(k) is \$19,500 for individuals who are below 50 years, and an additional catch-up contribution of \$6,500 is allowed for individuals who are 50 years or older, bringing the total contribution limit to \$26,000. However, the total combined contribution limit for all types of 401(k) contributions, including both traditional and Roth 401(k), is \$58,000 for individuals below 50 years, and \$64,500 for individuals who are 50 years or older.



## ***April Webinars***

**4/10 - The Volatility Shield: How to Make Your Retirement Income Last 15 Years Longer**

**4/12 - Getting Safely Through Retirement: A New Paradigm in Retirement Planning**

**4/13- Investment & Distribution Pitfalls Facing Your Retirement**

**4/13 - Getting Safely Through Retirement: A New Paradigm in Retirement Planning**

**4/14 - Getting Safely Through Retirement: Portfolio Management and Principal Protected Products**

**4/19 - Maximize Retirement Cash Flow Using a 3 Bucket System**

**4/19 - Getting Safely Through Retirement: A New Paradigm in Retirement Planning**

**4/21 - Long-Term Care and Elder Abuse: Unsolved Risk for Many Retirees**

**4/25 - Evolving Retirement Law with Secure Act 2.0: The Challenges, The Changes & Your Choices**

**4/26 - Getting Safely Through Retirement: A New Paradigm in Retirement Planning**

**4/27 - The Top 15 Reasons Why People Run Out of Money in Retirement**

**4/27 - Getting Safely Through Retirement: Building a Strong Foundation**

**4/28 - Getting Safely Through Retirement: Portfolio Management and Principal Protected Products**

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