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Everything Is the Same – Until it Isn't

Do you think you understand Roth? Is Roth a core piece in your retirement strategy? Pay attention.

The Roth IRA, first introduced in 1997, has long allowed taxpayers to deposit post-tax money into a Roth account in exchange for possible future tax-free distributions. Unique Roth IRA rules were—and currently still are—

- Leave money in the Roth for at least five years (starting on January 1st or age 59 and ½, whichever arrives later. Meet this rule and all distributions will be 100% tax-free of the tax year of the first deposit)
- Unlike traditional IRAs, Roth IRAs will not be subject to requirement minimum distributions at age 70 and ½
- Like traditional IRAs, upon death of the owner, Roth IRAs may be set up for young beneficiaries to 'stretch out' the distributions over life expectancies of the recipients. But unlike traditional IRAs, Roth IRA proceeds may be 100% tax-free to the beneficiary until totally liquidated.

If enacted into law, these changes will have major implications for retirement planning and estate planning.

The agreement between the Federal government's Roth policy and the taxpayer is this —> in exchange for no tax deduction today, a Roth IRA removes assets from required distribution mandates found in all other qualified arrangements forms during the lifetime of the owner, and provides potentially 100% tax free distributions to the owner plus 100% tax-free legacy for children and grandchildren who inherit any remainder.

Net message —> Established rules. Fair trade-off. Consistent since Inception. Reliable.

In the last decade, the popular Roth concept was incorporated into Internal Revenue Code to be allowed within 401k, 403b and 457 plans. In both employer plan forms and individual IRA forms, Roth arrangements increase current tax revenues to the government in exchange for future estate planning promises of the asset owners. Roth treatments have become increasingly popular!

In recent weeks, the Obama Administration's 2015 budget was unveiled, dropping a bombshell on anything Roth. Among many new recommended provisions are two stunning proposals:

- Roth accounts will be subject to requirement minimum distributions (RMDs) at age 70 and ½ during lifetime of the owner
- With the exception of a spouse (who can take on a deceased's Roth account as his/her own), Roth accounts no longer may be stretched for non-spouse beneficiaries but must be distributed over maximum of 5 years. In summary – the legacy stretch plan will be dead.

If enacted into law, these changes will have major implications for retirement planning and estate planning. The changes will require revisions in processing rules in all software supporting Roth contracts administration. If adopted, we also expect some complex grandfathering to occur along with other exceptions to revised rules. The comfortable, clear and reliable rules that once differentiated non-Roth v Roth investments will no longer stand.

New Net message —> Pay attention. Nothing stays the same forever, especially within tax policy.

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