



## Roth IRAs and the 5 Year Clock

*Be careful.*

☞ Each Roth IRA conversion has its own, separate 5 year clock for penalty free withdrawal of the converted amount prior to 59.5. Distributions of converted funds not held for 5 years will be subject to the 10% penalty, but only if you are under 59.5 years old when you withdraw the converted dollars.

☞ There is only one 5 year clock for tax free withdrawal of the earnings in a Roth IRA.

Each Roth IRA conversion has its own, individual 5 year clock for determining whether the converted amount can be withdrawn penalty free. Specifically, Roth IRA account owners under 59.5 must wait 5 years before being able to withdraw Roth IRA conversion amounts penalty tax free. If you are over 59.5, this 5 year clock does not apply to you.

The 5 year clock for penalty free withdrawal of conversions is different than the 5 year clock for tax free withdrawals of earnings on contributions and conversions. This second 5 year clock for earnings starts with the first contribution of any type (regular or conversion) and is for qualification of earnings to be tax free. There is only one 5 year clock for tax free withdrawal of the earnings in a Roth IRA and all Roth IRAs share the same 5 year clock for earnings, whether the first Roth IRA was a conversion or a contribution.

## ➤ 5 Year Clock Example

**Q:** If I convert a traditional IRA to a Roth IRA in December 2009, my 5 year clock for penalty free withdrawal of the converted dollars starts Jan 1, 2009.

If I contribute \$5,000 to the Roth IRA in 2010, does the 5 year clock for tax free withdrawals of the earnings on this contribution start with Jan 1, 2009 also? In other words, do the earnings on the 2010 contribution have the same 5 year clock as the earnings on the 2009 IRA conversion?

**A:** *Pay attention to the language in any discussion of Roth IRAs and the 5 year clocks associated with them; note the difference between “penalty free” withdrawals and “tax free” withdrawals.*

1. The 2009 conversion dollars cannot be withdrawn penalty free for 5 years if the Roth IRA owner is under 59.5.
2. The 2009 conversion dollars could be withdrawn penalty free after four years if you turn 59.5 in the 4th year after the 2009 conversion.
3. The 2010 contribution dollars can be withdrawn penalty free anytime, regardless of your age.
4. The earnings on the 2009 conversion dollars and the 2010 contribution dollars cannot be withdrawn tax free for 5 years [after Jan 1, 2014] and if I'm older than 59.5 [or if I satisfy other exemptions].

***In other words, if you are over 59 1/2, all you need is any five year tenure [i.e. Tenure from a conversion or from a contribution] in a Roth for all earnings to be tax-free.***

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