
Sherwood Investment Services
Financial Planning & Investment Management

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The Savvy Investor

A Great Plan – The Roth IRA

The beginning of the year is a good time to contribute to your Roth IRA and to open one if you haven't taken advantage of this tax-free investment vehicle. Here's a quick run-down on Roth IRAs.

Eligibility

Married: Your Adjusted Gross Income must be under \$150,000.

Single: Your AGI must be under \$95,000.

Actually, the AGI can be up to \$160,000 if married and \$110,000 if single, but the amount you can contribute is reduced proportionately.

Contributions to a 401(k) do not affect the eligibility requirement. You can contribute to both. Also, you can be of any age, as long as you have earned income.

How Much Can I Contribute?

You can contribute up to \$4,000 in 2007 and \$5,000 in 2008 if you under age 50 and \$1,000 more if age 50 or older. You must have earned income up to at least the amount you contribute. This means your two-year old child who isn't working yet and has no earned income can not contribute to a Roth IRA, even if you give him/her the money.

You can have a Roth IRA for your spouse who does not have any earned income, as long as you have earned income.

Why Have a Roth IRA?

All money in the Roth IRA grows TAX FREE. You don't pay any taxes on money (or growth of this money) in the Roth IRA. In addition, you pay ZERO taxes when you withdraw the money (provided it is withdrawn after age 59.5

and the account has been open for five years or longer).

Contrast this to a regular IRA or a 401(k) plan, where the money grows only tax deferred, not tax free. When it is withdrawn from a regular IRA, you pay taxes on every penny withdrawn at your ordinary income tax rate (high).

How Much Will it Earn?

That depends on the investments selected. All money in the account can be invested in the same investments as any non-Roth account (joint, single IRA), including stocks, mutual funds, or a money market.

Is it Worth Having a Roth?

Yes. Remember the power of compound interest. And the money grows tax free, unlike a 401(k) which is taxed when you make withdrawals.

Bottom Line

It doesn't get much simpler. Regardless of your age, if you have spare money and you qualify, put it in a Roth IRA. Do the same for your spouse, even if she has no earned income, provided you do. If your kids have earned income but can't afford to set aside money into a Roth IRA, you can contribute up the limit to their Roth IRA. In 30 years they will love you. Maybe sooner.

Please contact us and visit our web site www.Sherwood-Investments.com for independent investment advice about the Roth IRA.