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Roth IRAs vs. Traditional IRAs: What You Need to Know

Originally intended to aid young and low-income workers in saving for retirement, Roth IRAs have become one of the most versatile and useful investment vehicles around, regardless of age or income. When deciding between funding a traditional IRA or a Roth IRA, there are a few key distinctions to keep in mind, such as how your money is taxed, when you will be able to access it, and what it can be used for.

The biggest difference between traditional IRAs and Roth IRAs is how taxes are handled. With a traditional IRA, contributions are tax deductible, and the withdrawals are taxed. On the other hand, contributions to a Roth IRA are not tax deductible. However, with a Roth IRA your money can grow tax sheltered, and your withdrawals are tax-free. Taxes are due on the front end for traditional IRAs and on the backend for Roth IRAs. If you anticipate your tax rate at retirement will be higher than your present rate, you are generally better off in a ROTH IRA.

Another major difference between Roth IRAs and traditional IRAs is the additional flexibility that Roth IRAs offer. Though best used for retirement, if needed, Roth IRAs can be used for other purposes. Because you have already paid taxes on the contributions, following Roth IRA guidelines, you can distribute these contributions (but not the earnings) without paying tax or penalties. This means that your Roth IRA contributions can provide quick cash in case of emergencies.

That said, if you wish to distribute the *earnings* of your Roth IRA without paying taxes or penalties, you must have reached age 59½ or become disabled, and you must have had the Roth IRA open for over five years. There are, however, exceptions that will also allow you to distribute Roth IRA earnings, even if the qualification requirements have not been met. One such exception is a first home purchase. Following Roth IRA guidelines, you can take up to $10,000 from a Roth IRA to aid in the purchase of a home for not only yourself, but also your children or grandchildren. *(continued on page 4)*

KEY DIFFERENCES BETWEEN TRADITIONAL AND ROTH IRAS

	Traditional IRA	Roth IRA
Tax Incentives	Initial contributions are tax-deductible, but withdrawals in retirement will be taxed as income.	Initial contributions provide no tax break, but withdrawals in retirement are generally tax-free.
Early Withdrawals	Withdrawals prior to retirement will be taxed as income and may incur a tax penalty.	Initial contributions can be withdrawn at any time. Earnings can be withdrawn early, but will face penalties unless they qualify for an exemption.
Required Minimum Distribution (RMDs)	No contributions can be made after the age of 70½, and you are forced to take RMDs.	Contributions can be made as long as you are earning, and there are no RMDs during the lifetime of the initial account holder.
Income Limits	There are no income limits.	Eligibility is determined by income, and high-income earners may not be able to contribute. Traditional IRA funds can be converted to a Roth IRA though, regardless of income.

Planning Your Estate

Helping Your Wishes Become Reality

That ageless adage, *a goal without a plan is nothing more than a wish,* could be the subtitle of nearly any article pertaining to estate planning. The central purpose of *all* estate planning is that your final wishes be legally formalized so that they can be accurately enacted at the time of death. Everyone needs to develop an estate plan. Without an estate plan, your final wishes may be just that: nothing more than a wish. The realm of estate planning runs the gamut from being as simple as a single-page will to a highly complex legal exposition. Whether you are uber-rich or of modest means, it is important that you leave a legal directive outlining how you wish your assets to be distributed upon your death.

Though there are far too many significant components in a comprehensive estate plan for discussion in this short article, here are some of the most basic elements your estate plan should address:

- First and foremost, develop an estate plan. If you leave no directive at the time of death, state laws will determine how your assets are distributed. You can avoid a great deal of legal entanglements, tax problems, and heartaches for your heirs with an estate plan.
- Accuracy is critical when developing an estate plan. Make certain *all* your assets are accounted for in your estate. In addition, it is imperative *all* your records (deeds, titles, tax records, bank accounts, etc.) are easily located upon your death. Furthermore, in this digital age, make sure your passwords and usernames are known to a confidant so any online accounts can be accessed.
- Make sure your estate plan is accurately structured to reflect how you want your assets to be distributed. This is especially important when dealing with a minor. You will want to determine how the minor's inheritance is to be held on their behalf and until what age.
- Name the executor and the trustee of your estate before your death. Name persons based *only on their abilities*, do not choose individuals (especially family members) out of a sense of guilt or obligation.
- Keep your beneficiary designations up to date. Check your IRAs, life insurance policies and any possible pension funds to confirm all your beneficiaries are accurate.
- When developing your estate plan, it is also a good idea to deal with the possibility of becoming incapacitated. You will want to designate a power of attorney to someone who can make medical and financial decisions on your behalf, in case you are no longer able to make them yourself. At the same time, you may want to address the issues of a living will and end-of-life decisions.

Review and update your estate plan throughout your lifetime. Change is the only constant in our lives. An array of circumstances can impact your estate plan—your marital status may change, new tax laws are enacted, grandchildren appear, relatives pass away, etc. It is a good idea to review and update your estate plan on a regular basis.

This column is provided by Laurence C. Burnette, CFP and member of the Financial Planning Association.
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Why Your Social Security Check May Be Smaller than You Think

If you are hoping to rely on your Social Security benefits as the main source of income in your retirement years, you may be in for a surprise. A recent survey conducted by the Nationwide Retirement Institute found that 27 percent of retirees said their payments were lower than they had expected. The same survey found that those nearing retirement expected to receive $1,628 per month, but the average current retiree receives only $1,257 per month.

The main disconnect between the money you expect and the money you receive comes from when you begin claiming your Social Security benefits. You can claim retirement as early as age 62, but you will not be eligible to receive all the benefits you earn until you reach full retirement age, which is 66 or 67, depending on the year you were born. This reduction in benefits can be as high as 30 percent for people born in 1960 and later. It is important to note that the inverse is also true. You can increase the amount you will receive by continuing to work after you've reached full retirement. For people born after 1934, you will earn a delayed retirement credit of 2/3 of 1 percent for each month you work past your full retirement age until you turn 70. It is important to carefully consider how the timing of when you retire will impact the benefits you qualify for.

Another potential reduction in your Social Security check could be caused by an offset. Debts owed can result in a claim against your benefits. The Social Security Administration has regulations in place to protect the first $750 of your benefits, but any funds beyond that can be taken to cover things such as defaulted student loans, back taxes, or unpaid child support or alimony. It is important that you factor in how much you owe and to whom when planning how much of your Social Security you will be able to rely on.

Even if you are aware of how much Social Security you will receive, it is equally important to consider where that money will go. One major issue to consider is healthcare costs. In the Nationwide survey mentioned above, 4 in 10 potential retirees stated that they did not expect to spend any of their Social Security on healthcare. The reality is that 58 percent of people who have retired in the last 10 years said that they use some portion of their Social Security for medical expenses. The cost of your Medicare premiums increases based on your tax bracket. For 2018, the standard Medicare Part B premium is $134, but, depending on your income, it could be as high as $428. It is important to keep in mind that your income can fluctuate significantly from year-to-year in your retirement as you sell off high-value assets, and that your premiums will change accordingly.

Relying primarily on Social Security in retirement can be tricky, and it is made all the trickier when the amount you get is lower than the amount you've budgeted for. It is important that you carefully consider the timing of your retirement, any outstanding debts, and the potential cost of healthcare to avoid any surprises when you begin to receive your Social Security checks.

An Important Note Regarding Correspondence

Due to ongoing issues with the U.S. Postal Service forwarding mail sent to our Atlanta office, please direct all future correspondence to Hanover's South Carolina office:
Hanover Advisors, Inc.
55 Beatie Place Suite 205
Greenville, SC 29601
All checks for deposit should be sent directly to Pershing Bank in New York.

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Roth IRAs *(Continued from page 1)*

Another exemption allows you to use your Roth IRA assets to pay for qualified higher education expenses for yourself, your spouse, or your children and grandchildren. There are other exemptions that may allow you to make distributions to cover medical expenses, back taxes, and health insurance premiums if your become unemployed.

In addition to helping to pay for college or buy a house for your children and grandchildren, Roth IRAs are a great estate planning tool if you intend to leave money to your heirs. With traditional IRAs, investors are not allowed to make contributions after the age of 70½, but with a Roth IRA, you can keep contributing for as long as you are earning. Additionally, at 70½, you are forced to start taking required minimum distributions (RMDs) from your traditional IRA. A Roth IRA does not have RMDs for the original owner. This means that you can continue contributing to your Roth IRA as long as you are earning income and never have to take any money out. When your Roth IRAs are passed to your heirs (exceptions for a spousal primary beneficiary), they will face RMDs, but these distributions will still be tax-free.

It is important to note that your ability to contribute to a Roth IRA is limited based on your income. However, people at any income level are able to convert the balance of their traditional IRA to a Roth IRA. Since funds in a traditional IRA are normally pre-tax, income tax will be applied to any pre-tax contributions and tax sheltered earnings converted. This can result in a larger than expected tax bill, and even put you into a different tax bracket, impacting things like Medicare premiums or your child's ability to receive financial aid for college. If you are considering a Roth IRA conversion, we recommend you advise your tax accountant / CPA of your intentions.

When deciding between funding a traditional IRA or a Roth IRA, it is important to keep these distinctions in mind. You should also consult a tax professional or financial advisor to ensure that you are reaping the maximum benefits from whichever retirement plan you choose.

Hanover Advisor Bulletins

Special Reminders to all Hanover Clients

- The Hanover Advisors website can be accessed at hanoveradvisorsinc.com. There you will find our latest newsletter and investment commentary, articles, our blog, and videos. You can also learn more about our services, access both the Black Diamond performance reporting system and your Pershing brokerage account(s).
- There are new enhancements to our portfolio reporting system. All Hanover clients have free access to or internet-based reporting system known as Black Diamond. This robust system provides comprehensive performance reporting, asset allocation and risk assessment on clients' portfolios. The system will have a new look and major enhancements starting this fall. Our office is available to assist in accessing and utilizing the Black Diamond system.
- As a reminder to our clients that Hanover Advisors, Inc. now has an office in Greenville, SC. Meetings can be scheduled at either the Greenville office or our conference facilities at Concourse Parkway in Atlanta. Please see our website, HanoverAdvisorsInc.com, for detailed contact information.
- We want to invite all clients to contact our office to schedule a portfolio review. We would be happy to coordinate a sit down meeting, a conference call, or an online meeting at your convenience. Please call our office to schedule an appointment.
- Due to a error in their software systems upgrade, Pershing Advisor Solution has been mistakenly charging clients $10.00 per mutual fund exchange. The fee is in error. Clients of Hanover Advisors pay no transaction fees in their accounts. The error is in the process of being corrected and all fees mistakenly billed to clients will be reversed.