Roth IRAs Have Powerful Plusses BUT Are Not Necessarily Your Best Option

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Compared to their traditional counterparts, Roth IRAs allow you to make after-tax contributions and withdraw your proceeds tax-free (provided that you've owned your account for at least five years and are at least 59 ½ years old). Therefore, all things being equal, in a rising tax environment, you could end up with a lot more income if you used a Roth IRA. They are also friendlier, in terms of allowing you to access your original contributions at any time, without triggering taxes or penalties.

Another superb but often unmentioned benefit is that income from a Roth IRA is *not* counted in the calculation of Provisional Income, thereby effectively reducing or completely eliminating any potential federal tax on your Social Security retirement checks. Additionally, unless you inherited the account from a deceased owner, there are no IRS-mandated required distributions to deal with beyond age 70 ½ — leaving you in full control.

The Limitations

Roth IRAs, however, come with certain limitations. Most notable is the limit on the maximum amount you can contribute in any given tax year. In 2013, the cap is $5,500, or $6,500 if you are past age 50.

In addition, there are limitations on who can own a Roth IRA and who can make maximum contributions. Currently, your Modified Adjusted Gross Income (MAGI) must be less than $112,000 (single) or $178,000 (joint return) to make the maximum contributions to your Roth IRA. Those earning between $112,000 and $127,000 (single) or $178,000 and $188,000 (joint return) are allowed reduced contributions — but if your MAGI exceeds either of these upper limits ($178,000 and $188,000), you are disqualified from contributing to a Roth IRA at all.

Similar Benefits with Less Restrictions

By and large, anyone — irrespective of their income level — can enjoy similar, if not superior, tax advantages by *maximally* funding (note the important word maximally) a life insurance contract up to, but not beyond, the IRS-mandated modified endowment contract (MEC) limit.

With this approach, there are no MAGI limitations or any of the stringent dollar caps associated with IRAs, so you are essentially able to set your own "limits" by simply customizing your contract to hold the exact amount you intend to save. Another powerful feature is that if for any reason you contribute less than your intended amount in a particular year, you may contribute the shortfall anytime going forward, in addition to that year's amount. So unlike a Roth IRA, your opportunity to contribute in a given year does not evaporate as the calendar hits April 15.

You also are able to access some of your accumulated cash, including any gains, via wash loans (where the interest charged equals the interest credited, for a zero net effect), without creating taxable income and without having it counted as part of your Provisional Income. At death, the remaining funds are paid to your beneficiary — under Section 101 of the Internal Revenue Code — completely income-tax free.

Here's an important caution: Be sure to seek counsel from a licensed professional who is familiar with the requirements surrounding these contracts as set out in the U.S. Tax Code (particularly sections 7702, 72(e), and 101) and who has real-life experience in designing such contracts that are complaint and cost effective. If you'd like more information or simply need a second opinion about your financial plan, please call 877.656.9111 or visit LaserFG.com to schedule an absolutely no-strings-attached consultation with an experienced, thoughtful professional.

About the Author

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