

# What is a Roth IRA, and how does it work?

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## Key takeaways

- 1 A Roth IRA is a type of tax-advantaged retirement savings account.
- 2 You contribute after-tax dollars to a Roth, but the money grows tax-free—and so are qualified withdrawals in retirement.
- 3 Roth IRAs give retirees flexibility with income and tax planning.

## What is a Roth IRA?

A Roth IRA (individual retirement account) allows you to save for retirement while minimizing your future taxes. While you'll have to pay income taxes now on money you put into a Roth IRA, the money you deposit will grow tax-free. After age 59½, any money you withdraw won't be taxed—as long as you've had the account for at least five tax years.

After-tax contributions and the ability to make tax-free withdrawals [differentiates Roth IRAs from traditional IRAs](#); with traditional accounts, qualified contributions are tax deductible but distributions aren't. As a result, Roth IRAs are often a great resource for young savers or anyone who thinks their tax bracket will be higher in retirement.

Even if you're not sure whether your tax bracket will increase, you still might want to open a Roth IRA if you qualify based on your income. Unlike most retirement accounts, Roth IRAs don't require minimum withdrawals during retirement. This can be helpful if you're hoping to minimize taxes once you're no longer working.

Roth IRAs offer flexibility before retirement, too. You can withdraw your contributions from your account at any time without paying income tax or a penalty. However, if you're under age 59½, you'll have to pay taxes on the account's growth—and unless you use the money for [qualified expenses](#), such as medical bills or college tuition, you'll face a tax penalty as well.



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## How do Roth IRAs work?

Roth IRAs are subject to certain income limits. For instance, if you are married filing jointly or you're a qualified widow and your modified adjusted gross income is less than \$218,000, you can contribute the maximum for 2023. If you're single and you make less than \$138,000, you can also contribute the maximum.

As long as you meet these income limits, you can contribute to a Roth IRA. And if you have one, you can contribute to a workplace retirement account, like a [401\(k\) and a Roth IRA](#) at the same time. You can open a Roth IRA via most brokerages, online, or in person.

Once you've made an initial deposit, you'll need to choose investments. If you're saving for retirement, it's wise to buy a well-diversified mix of stocks and bonds that reflects your time until retirement and risk tolerance. You can also invest your money in a target-date fund, which automatically adjusts its stock and bond holdings to grow more conservative over time. (Just make sure the fund's strategy doesn't overlap with retirement investments you may already have elsewhere.) If you're not sure where to invest, a financial professional can help you.

## Roth IRA contributions and limits

In 2023, you can contribute up to \$6,500 to a Roth IRA (or \$7,500 if you'll be at least age 50 by year end. Beginning in 2025, a 25-year-old who opens a Roth IRA and maxes out their contributions this year and every year going forward would have more than \$1 million in their account by the time they're 66 years old.

Starting in 2025, the SECURE 2.0 Act of 2022 will create an opportunity for you to sock away an extra \$10,000 or 50% more than the regular catch-up limit (whichever is higher) if you're between ages 60 and 63.

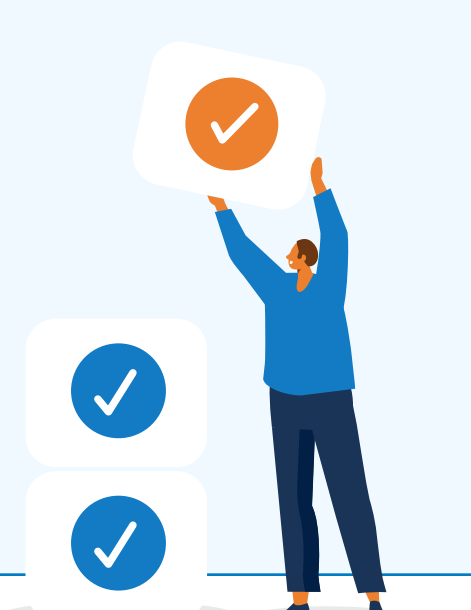
Even so, if you're single and earn \$138,000 or more, the amount you can contribute is reduced; if you make \$153,000 or more, you're ineligible to make a contribution to a Roth IRA entirely. For married couples filing jointly, the reduced contribution takes effect if their combined income ranges from \$218,000 to \$228,000. If you're self-employed, you may still qualify to contribute to a simplified employee pension plan (SEP IRA) even if your income exceeds these limits.

You can make contributions to your Roth IRA all at once or through multiple deposits over the course of the year. If you opt for the latter route, set up automatic contributions to ensure you're putting money into the account on a regular basis. Keep in mind that contributions made through next year's tax deadline count toward this year's contribution.

## What you can do next

If you think a tax-free retirement account is right for you, contact a financial professional to help you open a Roth IRA. Consider your goals when making investment choices, and set up direct deposit to make it easier to save.

Please consult your tax and legal advisors regarding your particular circumstances, retirement goals, and more.



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## Written by Beth Braverman

Beth Braverman is a freelance writer covering personal finance, parenting, and careers. Her work has appeared in dozens of publications, including Consumer Reports, CNBC.com, and CNNMoney.com.

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