Roth IRA: 5-Year Clocks & Distribution Ordering Rules

All Roth IRA Accounts are Considered One

Contributions

Come out first. Always no tax & no penalty



Come out second.

No tax & no penalty if distributed after 5 years **OR** age 59½. For the 10% penalty, each conversion has its own 5-year clock.



No tax & no penalty if distributed after 5 years **AND** age 59½.

* Earnings are not subject to tax if withdrawn after the account owner has had any Roth IRA for 5 years **AND** is over the age of 59½, or is dead, disabled, or is taking the funds for a first-time home purchase. If the account owner is under the age of 59½ at the time of the distribution of earnings, he or she is also subject to the 10% early distribution penalty.

Second conversion done for \$50,000. First conversion done for \$20,000. Account now consists of: Account now consists of: \$6,000 Contribution Age 591/2 Account Summary Since the "5-Year Forever \$6,000 Contribution \$20,000 Conversion #1 Roth 5-Year Forever Clock started at age 25. Clock" is satisfied and this \$20,000 Conversion #1 \$50,000 Conversion #2 Conversion #1: 5-year clock is satisfied. person is over age 591/2, \$2,000 Earnings (estimated) \$8,000 Earnings (estimated) Conversion #2: 5-year clock is satisfied. all future contributions. conversions and earnings Account consists of: Account worth \$30,000 on those transactions will \$6,000 Original contribution Age 25 \$6,000 Contribution be immediately available \$20,000 Conversion #1 **Both IBA started with** \$20,000 Conversion #1 for withdrawal tax- and \$50,000 Conversion #2 \$6,000 contribution. \$4,000 Earnings penalty-free. \$48,000 Earnings (estimated) (estimated) Age 25 55 Eligible to withdraw entire account tax- and penalty-free. Roth earnings are also available. Age 46 (Distributed after 5 years AND 591/2.) Eligible to withdraw \$50,000 5-vear clock for from second conversion both conversion #2 starts 5-year clock for tax- and penalty-free. conversion #1 starts ■ Eligible to withdraw \$20,000 from first conversion both Roth conversion dollars are available tax- and penalty-Roth "5-Year Forever" clock tax- and penalty-free. free if distributed after 5 years **OR** after age 591/2. starts; satisfied at age 30. Immediately eligible to withdraw the entire \$6,000 contribution both tax- and penalty-free. Roth IRA contributions are always available tax-and penalty-free.