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Minimodule converting to a Roth IRA.

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Summary: Federal tax rules in the United States provide for two particular kinds of personal retirement accounts: indent=6mm

(1) traditional IRA: In a tax-advantaged ("deductible") individual retirement account (IRA), the tax advantage is that contributions are made with "before-tax" dollars; that is, taxable income is reduced by the amount of contribution to the account. Withdrawals in retirement of the original principal and accumulated interest are taxed as income at the time of withdrawal. Taxes are thereby postponed until after retirement, when the individual's tax rate may be lower.

(2) Roth IRA: Contributions to a Roth IRA are made with after-tax funds, and principal and interest withdrawn in retirement are tax-free. (A Roth IRA can have further advantageous aspects not immediately relevant to our considerations.) The author discusses when customers might benefit by converting to a Roth IRA

Classification: M35

Keywords: financial mathematics; retirement plans; mathematical applications