

Dave Ramsey's

Roth IRA

Starter Guide



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Introduction

If you've come to this guide because you're ready to begin investing for retirement, take a moment to appreciate how far you've come. If you're following Dave's seven Baby Steps, you're now on Baby Step 4. You've eliminated your debt and built an emergency fund that will provide for your family for up to six months. That alone makes you unique in a nation where most families live paycheck to paycheck.

You're ready to enter an exciting new phase of wealth building. The path you'll take going forward will look familiar. You'll still need a good plan and lots of discipline. But you're no longer concerned with the mistakes of the past. You're building for the future!

While this is a big step for you, fortunately it's an easy one to take. Retirement investing has a reputation for being incredibly complicated and intimidating. But the good news is the process is actually simple and the tools are readily available.

The Roth IRA (Individual Retirement Arrangement) is a key player in any retirement plan thanks to built-in tax benefits that actually increase the value of your savings compared to traditional investment accounts. And opening a Roth IRA is as simple as opening a checking account.

But first, let's talk about why you need a Roth IRA as part of your retirement plan. No complicated investor-speak, we promise!



How a Roth IRA Turbocharges Your Retirement

A Roth IRA is a type of account that allows the money you invest for retirement to grow tax free. When you retire, the withdrawals you make from your Roth IRA are also tax-free.

You probably already know that the Roth IRA is not the only type of retirement plan that offers special tax treatment. The 401(k), for example, allows your savings to grow tax deferred. That means you don't pay taxes on the money in your 401(k) until you withdraw it.

But the 401(k)'s tax deferral is not as powerful as the Roth's tax-free feature. The benefits of tax-free withdrawals are clear in a side-by-side comparison.



Even though the same amount of money went into each of these accounts, and each one grew at the same rate, the tax-free account is worth far more than the taxable or tax-deferred accounts when it comes time to actually use the money.



Set Up Your Roth IRA in Three Easy Steps

1 *Choose where you will open your account.* The best way to open your Roth IRA is through an experienced investing advisor who will meet with you face-to-face. Online brokers, mutual fund companies and even your local bank can help you with the paperwork. But an investing advisor will walk you through the set-up, and you can use their knowledge and experience to help you choose the investments you'll make through your new Roth IRA.

2 *Gather your information and fill out the application.* We mentioned before that opening a Roth is as simple as opening a bank account.

You'll need the following information to open your Roth IRA:

- Your driver's license or other form of photo identification
- Your Social Security number
- Your bank's routing number and your checking or savings account number
- Your employer's name and address

As part of the process, you'll also choose a beneficiary (or beneficiaries) who will inherit your Roth. You'll need that person's (or persons') name, Social Security number and date of birth.

3 *Make your initial deposit and/or set up automatic contributions.* Roth IRAs have annual contribution and income limits that increase periodically. At the time of this writing, the maximum amount you can contribute to a Roth IRA is \$5,500. You can contribute the maximum amount as long as your income is less than \$112,000 for single people and \$178,000 for married people who file a joint tax return. Your investing advisor will keep you up-to-date on changes in the contribution and income limits.



You can open your Roth IRA with a lump sum up to the annual limit. Or you may choose to deduct a specific amount from your bank account each month to contribute to your Roth. You can also do both as long as you don't exceed the contribution limit for that year. Many mutual fund companies will allow you to start a Roth IRA with as little as \$50 per month, so there's no need to put off opening your IRA until you "have enough money to start investing."

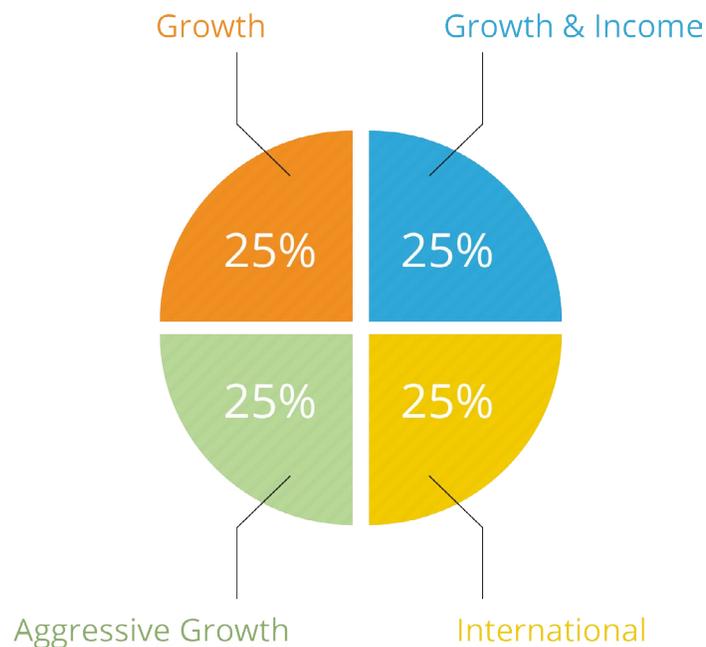
You must have an earned income to open a Roth IRA—that means you earn money through your job or a business you own. Married couples can have two Roth IRAs even if one spouse does not have an earned income. The spouse with an earned income can contribute the maximum amount to both accounts each year.



Time to Pick the Right Investments

With the help of your investing advisor

Your Roth IRA is not an investment itself—it's simply a tax-protected vehicle for your investments. When you open your Roth IRA, your initial deposit will remain in cash until you designate where you want to invest it.

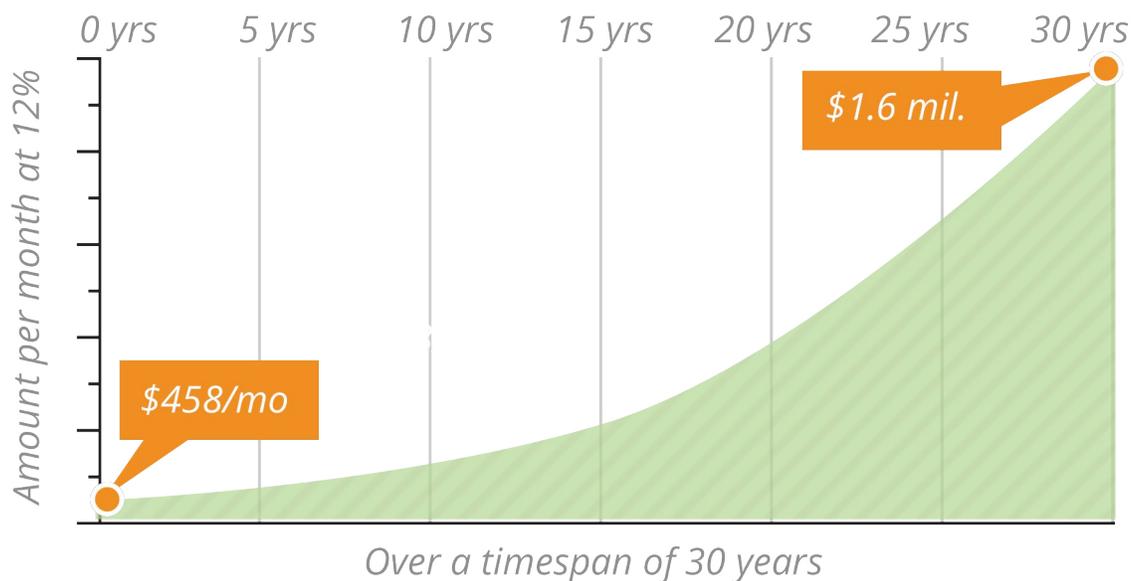


You can invest in nearly anything through your Roth IRA, including money market accounts, stocks, bonds, real estate and mutual funds. We recommend mutual funds because they give you the greatest potential for long-term growth through the stock market. Work with your advisor to select funds in these four categories: Growth, Growth and Income, Aggressive Growth and international.



Stick to Your Investments With a Long-Term View

Once you've selected your investments, simply continue making your regular contributions and stick with them whether the stock market is up or down. You should consult your advisor if you have concerns about your funds' performance, but remember that retirement investing is a long-term venture. Your Roth IRA may rise and fall with the stock market, but over its lifetime, you should see a steady trend of growth.



Your total contribution to this million-dollar nest egg is only about \$165,000. All the rest is growth you get to keep, thanks to the Roth IRA's tax-free withdrawals.



Eliminate Excuses and Get Started Today

As you can see, opening a Roth IRA is super simple. Investing in your Roth IRA takes a little more thought, but we have three tips to simplify this process too.

- 1** ***Just do it!*** We're all guilty of avoiding tasks that are unfamiliar. Selecting mutual funds for your Roth IRA may take a little time, but it will be a huge improvement in your retirement savings plan. As we pointed out, you don't even need a lot of money to get started.
- 2** ***Contribute automatically.*** Automatic contributions not only make it easy to start your Roth IRA, they're also handy for keeping your investing consistent. When you invest the same amount each month, you use a risk-reduction strategy called dollar-cost averaging. You end up buying more shares when prices are down and fewer shares when prices are high—a wise move in any market!
- 3** ***Work with an advisor you trust.*** You'll have your Roth IRA for a long time, so you'll depend on investing advice from your advisor for a long time too. Choose an advisor you trust to give you good advice—someone who understands the final investment decisions are up to you. This is your money and your retirement, after all.



Free Help to Start Your Roth IRA

Through Dave's network of trustworthy investing experts, you can find an experienced professional in your area who will open your Roth IRA for you. You can also count on Dave's experts to guide you as you choose mutual funds for your Roth IRA. They will also help you maintain your Roth IRA to make sure you're on track for a successful retirement.

[Get your Roth IRA started today!](#)