

TRADITIONAL & ROTH

IRA

Comparison Between a
Traditional IRA and a
Roth IRA



Understanding your options
is a recipe for success.

You can't go wrong: Which is better is a matter of taste.

Traditional IRAs and Roth IRAs both offer growth, security, and valuable tax advantages — plus total access to your money if you need it. Which one is better depends on your stage of life, your tax bracket, and whether you want to build tax-deferred savings for later or if you want to build assets for your heirs.

- If you want to build tax-deferred savings for later and benefit from tax-deductible contributions now, a Traditional IRA may be a good choice. This may be appropriate if you're in a higher income bracket now, but expect to be in a lower bracket by the time you begin to take money out of your IRA.
- If you want the growth that tax-free earnings provide, plus tax-free withdrawals down the road, a Roth IRA may be just the ticket. If you want to build assets for your heirs, then putting money into a Roth IRA may be the way to go, as you can continue to contribute and don't have to take distributions as long as you are alive.

Choosing between a Traditional IRA or Roth IRA can be difficult, and some have both. Understanding the ingredients of each can help lead you to the right decision.

IMPORTANT! Tax rules can be complicated. This brochure is intended to serve as a general overview. Before making any decisions, you should speak with a qualified tax advisor.

Both types of IRAs offer special tax advantages. You may be eligible to contribute to both a Traditional IRA and a Roth IRA for the same year, and you can withdraw money from either type of IRA at any time — your funds are always accessible.

Contributing to an IRA

With a Traditional IRA, contributions may be made at any time, regardless of your income level or tax-filing status. With a Roth IRA, contributions may be limited or even disallowed if your income is over a certain level.

Contributions are limited to a specific dollar amount each tax year, based on whether you are under age 50, or age 50 or older. For 2023, the contribution limits are \$6,500 if you are under age 50 (\$7,000 for 2024), and \$7,500 if you are age 50 or older (\$8,000 for 2024). Future limits are subject to cost-of-living adjustments. (Note: If you contribute to both a Traditional IRA and a Roth IRA, your total combined contributions may not exceed these limits.) Contributions may not exceed 100% of compensation (e.g., wages, salaries, tips, professional fees, bonuses, etc.). If either you or your spouse has little or no compensation, the spousal rules may allow each of you to contribute the full amount to your own IRAs.

“If there’s a recipe for success in life, it starts with picking the right ingredients.”

– ANONYMOUS



Traditional IRA Advantages

A Traditional IRA is easy to maintain and offers two important tax advantages:

- If you (or you and your spouse) do not participate in a retirement plan at work, contributions you make to your Traditional IRA are fully deductible, regardless of your income level. However, if you (or your spouse) do participate in a retirement plan at work, you still may be eligible for either a full or partial deduction based on your tax-filing status and income.
- The investment gains/earnings you make on your Traditional IRA are 100% free from federal income tax until you withdraw them.

Withdrawing from a Traditional IRA

You can take money out of your Traditional IRA at any time; however, you must begin taking distributions by April 1 of the year after the year you turn age 73 (age 75 starting with 2033).

When you do, the taxable portion of the distribution is taxed as ordinary income. If you withdraw funds prior to age 59½, you may also be subject to the IRS 10% early distribution penalty.

Roth IRA Advantages

Even though contributions are not deductible, they are not subject to federal income tax or penalty when you withdraw the money. As long as certain conditions are met, Roth IRA earnings are paid out tax-free and penalty-free.

Withdrawing from a Roth IRA

You can take money out of your Roth IRA at any time. You are not required to withdraw from your Roth IRA until you are ready, as long as you are alive. Your account can continue to grow until you need it, or you can pass it on to your heirs.

For tax purposes, funds from your Roth IRA are paid out in the following order:

- Regular contributions come out first, penalty-free and tax-free.
- Converted funds come out next, tax-free. They are also withdrawn penalty-free, provided these funds are withdrawn after the required five-year period or if an exception applies (e.g., reaching age 59½, becoming disabled, using money for higher education expenses, etc.).
- Earnings come out last. They are penalty-free and tax-free if withdrawn after the required five-year period AND one of these four situations applies: you are over age 59½, disabled, withdrawing for a first-home purchase, or you have died. There are other exceptions that allow you to withdraw earnings without penalty, but the tax will still be due.



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