

Traditional and Roth IRAs – Which is Right for You?



There is a wide variety of tax-advantaged ways for individuals to save for retirement. Because of their income tax benefits and because IRAs are so easily established, they have become one of the most often used retirement savings vehicles available today. Recent tax laws, however, have created three very unique types of IRAs – the Traditional IRA, the Non-Deductible IRA and the newer Roth IRA.

Traditional IRA

Traditional IRAs allow a working individual under the age of 70 ½ to contribute up to \$3,000 of compensation each year (for tax years 2002 thru 2004), tax-deferred, for retirement and other important financial goals. In addition, taxpayers over the age of 49 are now allowed to contribute an additional \$500 as part of the "catch-up" provisions of the new tax law. Earnings on these contributions grow tax-deferred until withdrawn. Married couples who file jointly may contribute up to \$6,000 (\$3,000 per IRA), even if only one spouse has earned income, certain limitations apply. Your IRA contributions may also be deductible depending on your participation in an employer maintained retirement plan, your adjusted gross income, and your filing status. Withdrawals are subject to ordinary income tax and may be subject to a 10% federal penalty if taken prior to age 59 ½.

Non-Deductible IRA

Similar to the Traditional IRA, the Non-Deductible IRA allows a working individual under the age of 70 ½ to contribute up to \$3,000 of compensation each year. Unlike the Traditional IRA, the Non-Deductible IRA contribution is made with "after-tax" dollars – the income tax deduction allowed the Traditional IRA is not available to the Non-Deductible IRA. For the most part, the Non-Deductible IRA is utilized by those who do not qualify for the Traditional IRA, but can benefit from the "tax deferral" of earnings allowed with the Non-Deductible IRA.

Roth IRA

Funds, including earnings, can potentially be withdrawn from a Roth IRA federal tax-free.

The Roth IRA is available as an alternative to the traditional IRA. If you have earned income you may be eligible to make non-deductible contributions of up to \$3,000 a year to the Roth IRA, even after age 70 ½. This \$3,000 (plus potential "catch-up" contributions) is the maximum annual combined contribution that can be made to both types of IRA's (traditional and Roth), not counting rollover contributions. Funds, including earnings, can potentially be withdrawn from a Roth IRA federal tax-free. Withdrawals are generally federally income tax-free if the distribution is taken five years after the first contribution and after you have reached age 59 ½. Please consult your tax advisor for additional ways to qualify for tax-free treatment of Roth distributions. Withdrawals of earnings prior to age 59 ½ may be subject to income tax and a 10% federal penalty.

To Help Decide Which IRA Is Best For You...

Many factors must be considered, such as current and future income tax rates, investment returns, what the money will be used for and when, income, marital status, and the availability of a retirement plan at work. We can assist you in examining your personal situation to help you tailor your retirement plan to your individual needs.

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