

Roth IRA vs. Traditional IRA: Which Is Right for You?

When it comes to saving for retirement, Individual Retirement Accounts (IRAs) are a powerful tool that can help you build wealth over time. Two of the most common options are the Roth IRA and the Traditional IRA. Each has its own set of benefits, and choosing the right one can significantly impact your financial future.

KEY DIFFERENCES BETWEEN ROTH IRA AND TRADITIONAL IRA

1. Tax Treatment

- **Roth IRA:** Contributions are made with after-tax dollars, meaning you won't receive a tax deduction upfront. However, qualified withdrawals in retirement are tax-free, including earnings.
- **Traditional IRA:** Contributions may be tax-deductible, reducing your taxable income in the year you contribute. However, withdrawals in retirement are taxed as ordinary income.¹

2. Income Limits

- **Roth IRA:** Eligibility to contribute phases out at higher income levels. For 2025, single filers with a modified adjusted gross income (MAGI) above \$161,000 and married couples filing jointly above \$240,000 may not qualify to contribute directly.²
- **Traditional IRA:** There are no income limits for contributions, but the deductibility of those contributions may be limited if you or your spouse is covered by a workplace retirement plan.¹

3. Withdrawal Rules

- **Roth IRA:** Contributions can be withdrawn at any time without penalty. Earnings can also be withdrawn tax-free if you are at least 59½ and the account has been open for at least five years.¹
- **Traditional IRA:** Withdrawals before age 59½ are typically subject to a 10% penalty and income tax. Required Minimum Distributions (RMDs) begin at age 73.¹

4. Future Tax Considerations

- **Roth IRA:** Ideal for those who expect to be in a higher tax bracket in retirement or who value tax-free income later in life.
- **Traditional IRA:** May be more appealing for those who anticipate being in a lower tax bracket when they retire, making the upfront tax deduction more beneficial.

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1. IRS Publication 590-A (Contributions to Individual Retirement Arrangements).

2. Fidelity Investments Roth IRA Contribution Limits 2025 Guide.

RECENT LEGISLATIVE CHANGES IMPACTING IRAS

Required Minimum Distributions (RMDs) Age Increase

The SECURE 2.0 Act, enacted in December 2022, brought significant changes to retirement account rules. Notably, it increased the age at which individuals must start taking RMDs:

- **Age 73:** For individuals who turn 72 after December 31, 2022, the RMD age increases to 73 starting in 2023.¹
- **Age 75:** For individuals born in 1960 or later, the RMD age will increase to 75 beginning in 2033.¹

These changes may provide retirees with additional options for managing their retirement distributions and tax planning strategies, depending on individual circumstances.

Roth IRA Conversions for High-Income Earners

High-income earners who exceed the income limits for direct Roth IRA contributions still have options to benefit from Roth accounts:

- **Backdoor Roth IRA:** This strategy involves making a nondeductible contribution to a Traditional IRA and then converting those funds to a Roth IRA. There are no income limits for Roth conversions, making this an effective method for high earners to access Roth benefits.
- **Mega Backdoor Roth IRA:** For those with access to certain employer-sponsored retirement plans, this approach allows for after-tax contributions to a 401(k), which can then be rolled over to a Roth IRA. This method enables significantly higher contribution limits compared to standard Roth IRAs.

SPECIAL TIP FOR FIRST-TIME HOMEBUYERS

Both Roth and Traditional IRAs allow for a penalty-free withdrawal of up to \$10,000 in earnings to help purchase a first home if you qualify as a first-time homebuyer. For Roth IRAs, the account must be at least five years old to avoid taxes on the earnings portion. This provision can provide valuable support to individuals looking to make the leap into homeownership. Speak with your tax consultant to understand tax consequences that may arise.

Which IRA Is Right for You?

- **Consider a Roth IRA if:** You expect your income to rise over time, value tax-free retirement income, or want flexibility in accessing your contributions without penalties.
- **Consider a Traditional IRA if:** You seek immediate tax savings and anticipate lower taxable income in retirement.

Many investors benefit from diversifying their retirement accounts by contributing to both Roth and Traditional IRAs. This strategy can provide tax flexibility in retirement, allowing you to manage your taxable income strategically.

FOR MORE INFORMATION

Choosing between a Roth IRA and a Traditional IRA depends on your current financial situation, tax outlook, and retirement goals. Contact me today to discuss the strategy that may be right for you.

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