

Roth or Traditional:

Decide Which Type of IRA is Right for You

Individual Retirement Accounts (IRAs) Can Help You Reach Your Retirement Goals

IRAs are a popular way to save for retirement in a tax-advantaged account—even if you already have a 401(k) or other workplace account. With two different choices—Roth or Traditional—IRAs provide you more investment options and opportunity to add to your savings for the future.

Roth vs. Traditional: What's Different? What's the Same?

Roth IRA

Traditional IRA

INCOME REQUIREMENTS

You must have earned income below the annual limits. If your income is within the “phase-out” range, you may be able to make partial contributions.



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CONTRIBUTIONS

Contributions are not tax deductible.



Some or all contributions may be tax deductible. It depends on your modified adjusted gross income, tax filing status and if your spouse participated in a workplace plan.

EARNINGS

Earnings are tax-free if the account is at least five years old and you are at least age 59 ½.



Income tax on earnings is deferred until you withdraw them.¹

ADDITIONAL USES

“Special purpose” penalty-free withdrawals are allowed under specific conditions (examples: first home, higher education), but you may owe tax on earnings.



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AGE LIMITS

At age 59 ½, you can make penalty-free withdrawals.



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DISTRIBUTION REQUIREMENTS

You are not required to take money out at any age. Plus, you can contribute as long as you earn income.



You can no longer make contributions in the year you turn age 70 ½. Plus, you must take minimum distributions annually to avoid a 50% penalty on the amount you were required to withdraw.

How Much Can You Contribute to an IRA?

\$5,500 Annual contribution limit²

\$1,000 Additional catch-up contribution limit² for investors age 50+

Your Future Tax Bracket May Influence Your Choice

TAX BRACKET WHEN YOU WITHDRAW

FAVORABLE ACCOUNT TYPE

→ Same as when contributed

Roth

↓ Lower than when contributed

Traditional

Converting From

Traditional → Roth

→ Income limits applicable to Roth contributions don't apply

→ No penalties to convert

→ Taxes will be due on contributions and earnings not previously taxed

The Bottom Line

Investing for retirement in a Roth or Traditional IRA can offer many benefits. As with all aspects of your financial plan, you should carefully consider which type of IRA is right for you. Talk with your tax advisor about your situation.

¹Earnings and deductible contributions will be taxed as ordinary income when you withdraw them.

²Or, 100% of your compensation each year if you earn less than the limit. Amounts may be adjusted for inflation.

IRA investment earnings are not taxed. Depending on the type of IRA and certain other factors, these earnings, as well as the original contributions, may be taxed at your ordinary income tax rate upon withdrawal. A 10% penalty may be imposed for early withdrawal before age 59 1/2.

Please consult your tax advisor for more detailed information regarding the Roth IRA or for advice regarding your individual situation. Taxes are deferred until withdrawal if the requirements are met. A 10% penalty may be imposed for early withdrawal before reaching age 59 1/2.

Investment return and principal value will fluctuate, and it is possible to lose money by investing.

This material has been prepared for educational purposes only. It is not intended to provide, and should not be relied upon for, investment, accounting, legal or tax advice.

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