

Traditional IRA vs. Roth IRA

RE-EVALUATING YOUR OPTIONS

The Traditional IRA has been the core of many individuals' personal retirement savings for nearly a quarter of a century. However, when the Roth IRA was introduced in 1997, it included features that many found hard to resist. Over two decades later, we thought it was time to take another look and help you compare these options to better determine the right fit given your goals and current financial situation.

Tax-Deferred Investing . . .

One of the biggest benefits of a Traditional IRA is that it may provide a current-year tax deduction. If neither you nor your spouse is covered by an employer's retirement plan, you can contribute up to \$7,000 (\$14,000 per couple) in 2024, and deduct the full contribution from your taxes. If you are over age 50, you can contribute \$8,000 per year. Even if you (or your spouse) participate in an employer's plan, you may still be able to get a full or partial deduction if you earn less than \$87,000 (single) or \$143,000 (married/filing jointly).

Regardless of your income, a Traditional IRA allows you to defer taxes on earnings until you make withdrawals. This means you can take advantage of potential "compounding" over time, which may mean greater retirement savings.

Early withdrawals (before age 59½) are permitted, but you will have to pay ordinary income tax and a 10% penalty on the taxable portion of the withdrawal. This penalty is waived if withdrawals are used for a first-time home purchase or college expenses. We recommend that you speak to one of our tax advisors for more detail.

. . . vs. Tax-Free Withdrawals

Like a Traditional IRA, you can contribute up to \$7,000 per year to a Roth IRA, or \$8,000 if you are over age 50. The deadline for each year's contribution is always April 15th of the following year, and



Traditional IRA	Roth IRA
■ Contributions may be fully or partially tax-deductible	■ Contributions are not tax-deductible
■ Tax-deferred investment earnings	■ Tax-free investment earnings
■ Taxes and 10% penalty for most early withdrawals	■ No taxes or penalties for withdrawals of contributions; taxes and 10% penalty for most early withdrawals and earnings
■ No age limits for contributions	■ No age limits for contributions
■ Required minimum withdrawals after age 73	■ No required minimum withdrawals

prior to filing your tax return. Note that your combined contributions to a Traditional IRA and Roth IRA cannot exceed \$7,000 per year (or \$8,000, if over age 50).

You can contribute to a Roth IRA if you earn less than \$161,000 (single) or \$240,000 (married/filing jointly). Unlike a Traditional IRA, contributions to a Roth IRA are not tax-deductible. However, the Roth may eliminate federal taxes on any investment earnings. In addition, you are never required to take distributions – and you can continue making contributions as long as you have earned income.

The Roth IRA offers greater flexibility, allowing tax and penalty free early withdrawals of contributions (prior to age 59½), as this money has already been taxed. However, to avoid paying ordinary income tax and a 10% penalty when withdrawing earnings, your Roth IRA must be open for at least five years, and the distribution must be taken after you reach age 59½ (unless you become disabled or

die). Taxes and penalties will be waived on up to \$10,000 for a first-time home buyer.

Speak to one of our financial advisors or tax advisors about whether a Traditional IRA or Roth IRA may fit better into your retirement investment strategy.

You may want to consider converting part or all of your Traditional IRA to a Roth IRA if:

- Your tax bracket in retirement is likely to be the same or higher than it is now
- Your expected rate of investment return is high
- Your investment horizon is long
- You're prepared to pay the tax bill on the conversion

The deadline for each year's conversion is December 31st. Keep in mind, any changes to your IRA can impact your retirement savings – and your income in retirement.

This information is provided as a public service, and should not be construed as individual accounting or tax planning advice. For information on how these general principals apply to your situation; please consult an accounting or tax professional.

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