

Roth IRA vs Traditional IRA

What's the difference between a Roth IRA and a traditional IRA?

Roth IRA

- Funded with after-tax dollars;
- Provides tax-free earnings growth and distributions;
- For tax year 2005, single people with modified adjusted gross income of \$95,000 or less, and married couples filing jointly with \$150,000 or less, can fund a Roth up to the full amount;
- A Roth is the right choice for an investor who thinks his tax rates during retirement will be higher than they are now. Given the large federal deficits and looming Medicare and Social Security costs, this might be a pretty fair bet;
- There are no required minimum distributions beginning at age 70½ (there are with a traditional IRA);
- The Roth will give you more dollars after tax in retirement, since the distributions are not taxed.

Traditional tax-deductible IRA

- An upfront tax deduction for the amount of the contribution;
- Income tax is paid on all future distributions;
- For the year 2005, if you are covered by a retirement plan at work, the full contribution to a deductible IRA is limited to singles earning \$50,000 or less and joint filers making \$70,000 or less;
- Investors who are within 20 years or so from needing the money, and who expect their tax bracket to fall in retirement, may be better off taking the tax-deductible IRA's upfront deduction.

For the 2005 tax year, individuals can contribute up to \$4,000 to an IRA, with a \$500 extra "catch-up" contribution for people 50 or older.

Nondeductible IRAs are a third option, but don't carry tax advantages.

For complete information see IRS Publication 590