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# Know the Difference Between Traditional and Roth IRAs

The deadline for contributing to our Individual Retirement Account (IRA) is quickly approaching and because these kinds of accounts can have a major impact on your long-term savings goals, it's important to know the difference between Traditional and Roth IRAs.

Let's look at some frequently asked questions about these accounts and the similarities and differences of both.

## Do I Qualify?

Traditional IRAs are available to individuals who earn a taxable income and are under 70 and a half years old. There are no income limits for Traditional IRAs.

Roth IRAs are available for individuals earning taxable income with no age limits, but there are income limits. Single filers must earn less than \$117,000 and joint-filers must earn less than \$184,000.

With both accounts, you can have other retirement ac-

## Local Investing

By **BO THIBODEAUX**

counts, such as a 401(k) during the same time.

## How Much Can I Contribute?

For both Traditional and Roth IRAs, you can contribute up to \$5,500 a year. If you're 50 years old or older, you can contribute up to \$6,500 a year, due to the "catch up" contribution.

## How Am I Taxed?

Taxes are the main difference between Traditional and Roth IRAs. Traditional IRA contributions are tax deductible at the

time of contribution, and you won't pay taxes until withdrawal. This means that withdrawals after age 59½ are taxed as regular income (but if you withdraw before then, you will be subject to a 10% penalty fee!). With Roth IRAs, withdrawals after age 59½ are tax-free (assuming that you have had the account for more than five years). But contributions before then are not tax deductible.

To summarize, with Traditional IRAs you pay taxes at the time of withdrawal, and with Roth IRAs, you pay taxes throughout your contributions, but not when you withdraw. Both accounts offer generous tax breaks but it's just a matter of when you want to receive those benefits. I often tell my clients that a Roth IRA is like the paycheck that goes into your bank account when you get paid after taxes. Therefore, it grows tax-free because it has already been taxed going in.

One consideration before deciding on the type of account

that is best for you is whether or not you expect your income tax rate to be higher or lower during retirement than it is now. For example, if you expect to be in a higher tax bracket when you retire than you are in today, a Roth IRA account might be a better bet because you will pay taxes on your contributions now and not later. A tax or financial professional would be able to tell you more accurately, though, which account is best for your situation.

Some questions to ask yourself when thinking about IRAs include:

What federal tax bracket am I in today?

How much do I expect to be earning when I retire?

Do I expect my tax rate to be higher or lower when I retire?

Do I expect my retirement income, including Social Security, to increase or decrease in retirement?

These are just a few questions to get you thinking about the difference between the two accounts.

## Conclusion

No matter what type of IRA you decide on, saving for retirement is crucial in today's market. Here are some things to remember when deciphering the differences between Traditional and Roth IRAs:

The age limit for Traditional IRAs is 70½ years old. There is no age limit for Roth IRAs.

There is no income limit to Traditional IRAs. For single filers, the income limit for Roth IRAs is \$117,000 and the joint-filing limit is \$184,000.

You can contribute up to \$5,500 a year to both accounts and after you turn 50 years old, you can make "catch up" contributions of \$6,500.

Traditional IRA contributions are tax deductible, but you pay taxes when you withdraw.

Roth IRA contributions are not tax deductible, but you don't have to pay taxes when you withdraw.

With some exceptions, both accounts face the possibility of a

penalty fee (10%) if the account holder withdraws before the accepted age of 59½ years old.

Your current and anticipated tax brackets and income levels play a factor in deciding which account is best for you.

You have until this year's tax filing deadline, April 17th, 2017 to make a 2016 tax contribution.

Some IRAs have contribution limitations and tax consequences for early withdrawals. For complete details, consult your tax advisor or attorney.

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