



Activity:

Deciding Between a Roth IRA and Traditional IRA

This activity is meant to get you started thinking about the differences between Roth and traditional IRAs, and which investment tool may work best for you.

Activity: Deciding Between a Roth IRA and Traditional IRA

Answer the following questions to help gain an understanding of whether you might choose a Roth or a traditional IRA as a retirement investment tool.

The primary difference between the two main types of IRA – Roth and traditional – is how and when your money is taxed. However, these IRA types also have some other differences that may help you decide. Alternatively, you might consider investing in both.

To choose between a Roth and traditional IRA, you could start with this question:

1. When you reach retirement age and need to draw upon the money held in the account, do you think your tax rate will be higher or lower than it is right now?

Higher Lower

If your answer is “higher,” a Roth IRA may be the better way to go, due to the delayed tax benefit. Because your money was pre-taxed, you won’t have to pay taxes at the higher rate when you withdraw it.

If your answer is “lower,” then you might explore a traditional IRA. The tax benefit of a traditional IRA is upfront, when you deposit the money, because you get a tax deduction in the year the contribution is made. If you expect your tax bracket to be lower at retirement, you will be taxed at that lower rate when you withdraw the funds.

Although that question may seem easy to answer, knowing your future tax bracket will require some guesswork. You may be able to identify about how much you will be earning; however, the government changes tax policies often, so there is no way to know for sure.

A couple more questions also may help you decide between the two IRA types:

2. Are you eligible to contribute to a Roth IRA?

Yes No

The tax code lays out the guidelines for contributing to a Roth IRA. For example, in 2019, single individuals with annual income of \$137,000 or more were ineligible for a Roth. You should consult with a tax professional to make sure you understand the rules and how they apply to you.

3. Do you think you will want to keep money in the IRA after you reach age 70½?

Yes No

Currently, traditional IRAs require you to stop contributing and start taking minimum distributions at age 70½. Roth IRAs do not.

Activity: Deciding Between a Roth IRA and Traditional IRA

4. Do you have heirs to whom you want to leave your money upon your death?

Yes No

Since you are not required to stop contributing to or take minimum distributions from a Roth IRA at age 70½, Roth IRAs may make it easier to pass money on to your heirs.

These questions represent a few simple guidelines for choosing the type of IRA that may work best for your investments. They don't cover all the complexities of these investment vehicles. Depending on your life stage, the questions may be relatively easy or difficult to answer. Your best course of action is to consult a trusted, licensed tax professional or financial advisor to help guide your decision.