

## Considering an IRA? How to Choose Between a Roth and a Traditional Investment Account

If you're interested in learning about one way to take full control of your retirement plans, an **Individual Retirement Account (IRA)** may be of interest to you. There are two types of IRA: Roth and traditional, and the biggest difference is when you pay taxes on your contributions.

The contribution limits are the same for both types of investment. For 2017, if you are younger than 50, you can contribute up to \$5,500 toward retirement in a Roth or traditional IRA. If you are 50 or older, the same \$5,500 contribution limit applies, but you can contribute an additional \$1,000 as a "catch up" contribution toward retirement, for a total of \$6,500.

**Traditional IRAs** are *tax-deferred* retirement savings accounts. This means that the contributions you make now are generally taken from your pre-tax income. The benefit of this investment method is that it can help lower your taxable income right now. And there are no income limits for who can contribute to a traditional IRA. If you expect to be in a lower income tax bracket when you retire, that is an additional reason to this kind of investment account.

One important distinction to keep in mind is that traditional IRAs require you to start taking required minimum distributions, which are mandatory, taxable withdrawals of a certain percentage of your funds, at age 70½, whether you need the money at that point or not.

One of the greatest advantages of a **Roth IRA** is that you contribute money to it after you pay taxes. So the money in your Roth account grows *tax-free*. When you withdraw money at retirement, you will not have to pay taxes on it. This is a great investment choice for those who expect to be in the same or a higher income tax bracket at retirement. However, since it is difficult to predict what tax bracket you will be in later, a combination of an employer-based 401(k) plan and a Roth IRA may be the best investment strategy for you. You can withdraw your contributions at any point if you have an emergency need, but you will be penalized for withdrawing money before age 59½,

Roth IRAs may be a better choice for people whose income meets the limits the IRS sets from year to year. Any income you contribute has to come from work and cannot include investment or rental income. Marital status also affects which level applies to you.

The 2017-specific limits below are based on modified adjusted gross income:

- Single or head of household: income of less than \$118,000
- Married filing jointly or a qualified widow(er): income of less than \$186,000
- Married filing separately: You must earn less than \$10,000\*

*\*Married people who choose to file separately can use the limits for single people if they have not lived with their spouse in the past year.*

Roth IRAs don't require any withdrawals during the owner's lifetime. In fact, you can let your investment accounts continue to grow tax-free throughout your lifetime and pass them down to your heirs.

For more information, and to make you have the most up-to-date guidelines for your specific life circumstances, visit the IRS website at

<https://www.irs.gov/retirement-plans/individual-retirement-arrangements-iras>.

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