JUNE 2018 NEWSLETTER

Individual Retirement Accounts vs. Roth Retirement Accounts

By Bill Mullally, *President*

Retirement can be the best time of your life, but it takes research, planning, and involvement. There are many options and variables involved that can be confusing. Your age, your goals, your objectives, your risk tolerance--they all make a difference. Your career, your income, your lifestyle also play a role. There are multiple paths you can take, which should ultimately lead you to a secure future.

There are two types of individual retirement accounts (IRAs) that I will discuss here and compare: Traditional IRA and Roth IRA.

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Traditional IRA

In a traditional IRA, contributions and growth are tax-deferred. In other words, you do not pay taxes on the money when you put it in the account. Tax is paid upon withdrawal. You can contribute if you (or your spouse if filing jointly) have taxable compensation, and you are younger than the age of 70 ½. If you expect to be in a higher tax bracket later in life, you may want to look into a Roth IRA instead.

Traditional IRAs require you to start taking required minimum distributions (RMDs)—mandatory, taxable withdrawals of a certain percentage of your funds—at age 70½, whether you need the money at that point or not.

Roth IRA

In a Roth IRA, withdrawals and growth are tax-free. However, your contributions are taxed, based on your current tax bracket. You can contribute at any age if you (or your spouse if filing jointly) have taxable compensation. Roth IRAs don't require any withdrawals during the owner's lifetime. If you have enough other income, you can let your Roth IRAs continue to grow tax-free throughout your lifetime, making them ideal wealth-transfer vehicles.

If you want to be able to withdraw retirement funds without paying taxes when you take them out, this is the way to go.

With both types of IRAs, you pay no taxes whatsoever on the growth of your contributed funds, as long as they remain in the account.

So the question comes down to: Do you want to pay your taxes now or later?

The important thing to remember is if you buy a stock at $10 per share and it grows to $100 and you take it out that growth is tax-free with a Roth IRA. That same gain in a regular IRA comes out as a taxable event and you pay your tax at your current rate. The logic behind a traditional IRA here is that you are retired, and your income tax rate is lower.

If for some reason you are in an unusually low income-tax bracket in one specific year, you should take advantage of that low bracket and convert to an IRA. No matter what your age, you should know that retirement doesn't just happen. You have to plan for it. You have to save for it. You have to know your path. **Let us help you build and sustain your plan so you can enjoy it all!**

For more information, contact us at **(925) 472-5700** or **information@alamocapital.com.**

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