

# Ask the Advisor

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## Should I contribute to my Roth IRA or my Traditional IRA?

Bob in Gilford

A Roth IRA is funded with after-tax money, but grows tax-free and qualified distributions are tax-free. A Traditional IRA is funded with pre-tax money and grows tax deferred, but qualified distributions are taxed as regular income.

In short, with a Roth IRA you pay the tax first and with a Traditional IRA you pay the tax last. With a Traditional IRA you may be paying tax, after growth, on a much larger amount later, but you might also be doing so at a lower tax rate.

Both are excellent ways to help fund retirement and either can make sense in certain scenarios.

For instance, if the immediate tax savings of the Traditional IRA means that you will be able to put more away, then a Traditional IRA can be the way to go.

If you don't want to have to take required minimum distributions (none required

with a Roth), or you don't want to pay taxes again, then a Roth IRA can be the way to go.

Generally, assuming that you will be making the maximum contribution to either, the further you are from retirement, the more beneficial a Roth IRA.

Closer to retirement, the Traditional IRA has benefits, but in both cases there are still many variables that can tip the scale either way. For instance, if you are close to retirement but won't be drawing from the IRA for years, if at all, then a Roth IRA can be the way to go.

Whatever you do, don't let the confusion between the two prevent you from funding either, or a combination of both. You can fund both, but the maximum combined contribution is still the same as if you were funding just one.

You have until April 15<sup>th</sup>

of 2012 to make your 2011 contribution. The 2011 maximum contribution amount for the Roth and Traditional IRA is \$5,000 (\$6,000 if you will be age 50 or older at year-end) or earned income, whichever is less.

In order to contribute to a Roth or Traditional IRA, you must have earned income (from wages, self-employment or taxable alimony) of at least the amount of the contribution.

For married couples filing jointly, either spouse can have the required earned income.

There are numerous income *phase-outs* based on your adjusted gross income that affect contributions.

Also affecting contributing to the Traditional IRA is your eligibility to participate in a company or non-profit retirement plan – you only have to be eligible, whether you actually participate, or not, is irrelevant.

Before funding an individual IRA be sure to explore the benefits of your company or non-profit retirement plan and coordinate the plans with any IRA contributions.

Many companies and non-profits offer matching contributions and most plans have contribution limits higher than individual IRAs. Your tax advisor can be a great resource in coordinating your retirement plan contributions.

Even if you do not qualify to make a Roth IRA contribution or a tax-deductible contribution to a Traditional IRA, you may still qualify to make a non-deductible Traditional IRA contribution.

Tax advantaged retirement accounts are a great way to save for retirement; whatever you do, don't let the complexity of the various plans prevent you from benefiting.

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