Know the Difference

Differentiators of traditional and Roth retirement accounts

An individual retirement account (IRA) is an investment account used by consumers to save for retirement. Individuals can open an IRA directly with a bank or broker. The two most common types of IRAs are the traditional IRA and the Roth IRA. Many consumers who have a 401(k) plan through their employer may also have these two options, the traditional 401(k) and the Roth 401(k), available to them. While the goal of the two accounts is the same, there are a few differences between them. Experts advise that a traditional IRA is best suited for individuals who are expecting to be in the same or lower tax bracket when they retire and start withdrawing from their account, while a Roth IRA could offer better benefits to individuals who are expecting to be in a higher tax bracket when they start taking withdrawals in retirement. In other words, when choosing which option to sign up for, consumers should ask themselves, does it make more financial sense to take advantage of tax benefits that reduce your taxable income for the year with a traditional account or enjoy tax-free withdrawals in the future with a Roth account? Read more about the basic differences between a traditional and Roth IRA below.

	Traditional IRA	Roth IRA
Taxes	Contributions in a traditional IRA grow tax-deferred, meaning taxes are not paid on the funds until they are withdrawn. Contributions are eligible for tax deductions.	Contributions in a Roth IRA grow tax-free, meaning taxes are paid before your dollars are placed in the account. Contributions are not eligible for tax deductions.
Contributions	Contributions in a traditional IRA come from pre-tax dollars with a maximum contribution of $7,000 for tax year 2024. If you are over the age of 50, with the catch-up contribution of $1,000, you can contribute $8,000.	Contributions in a Roth IRA come from after-tax dollars with a maximum contribution of $7,000 for tax year 2024. If you are over the age of 50, with the catch-up contribution of $1,000, you can contribute $8,000.
Withdrawals	Generally, there is a 10% early withdrawal penalty if money is withdrawan from a traditional IRA before age 59½. Money withdrawn from the account is considered income and will be taxed before and after age 59½. At age 73, account holders must take out required minimum distributions.	Sums equivalent to your contributions (not the account's earnings) can be withdrawn from a Roth IRA tax-free and penalty-free before age 59½ if the account has been open for more than five years. There are no required minimum distributions for a Roth IRA.