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IRAs: Traditional or Roth?

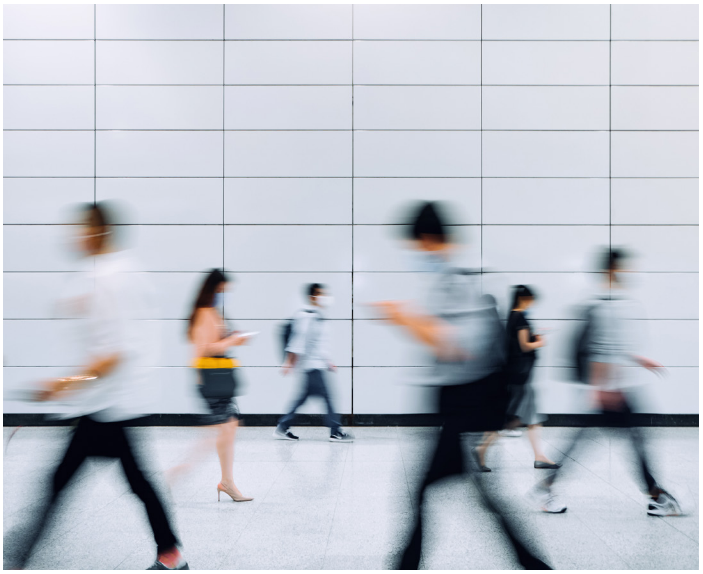
There are more retirement account options today than ever, including traditional IRAs and Roth IRAs. Compare the features, benefits and rules of each to help you decide which one is right for you. It's possible you may have both types of accounts to help maximize savings and minimize taxes you owe.

Common Features

Let's start by reviewing a few of the key features of the traditional IRA and the Roth IRA, along with their differences.

Tax Benefits

If you have earned income, you can generally make contributions to either a traditional or Roth IRA. A traditional IRA is an account to which you can contribute pre-tax or after-tax dollars. Your ability to make pre-tax contributions (deductible) may be limited based upon your income and participation in an employer retirement plan. Subsequent distributions from the account are generally taxed at the prevailing ordinary income tax rates at the time of withdrawal. Roth IRA contributions are made with after-tax dollars, and the qualified distributions—including any accrued earnings—are generally tax free.



Contributions

Both traditional and Roth IRAs have limits on the amount and timing of contributions into the account. For 2025, the combined annual contribution limit for Roth and traditional IRAs is $7,000 ($8,000 if age 50 or older).[1] Contributions to a traditional or a Roth IRA can be made anytime between January 1 and the tax-filing deadline of the following year (not including extensions). Individuals can generally continue to contribute to both traditional and Roth IRAs regardless of age as long as they have earned income.

Roth Income Limitations

With a Roth IRA, there are income-eligibility rules. For 2025, single tax filers must have a modified adjusted gross income (MAGI) of less than $150,000 to contribute up to the contribution limit to a Roth IRA. Per the IRS, contribution limits are phased out (reduced) when MAGI is $150,000 to $165,000 for single and head of household filers. If you are married and filing jointly, you must have a MAGI of less than $236,000 in 2025 to contribute to a Roth. Contribution limits are phased out when MAGI is from $236,000 to $246,000.[1]

Withdrawals

In regard to distributions, only the traditional IRA has required minimum distributions (RMDs). Both types of IRAs involve potential penalties if money is withdrawn before age 59½. Importantly, there are no required minimum distributions from the Roth IRA.* This additional deferral opportunity can be a significant advantage in terms of asset accumulation. Another Roth IRA benefit is tax-free distributions to beneficiaries. In the case of a traditional IRA, your beneficiaries will pay the income tax on their required distributions.

Which IRA Makes Sense for You?

Whether a traditional or a Roth IRA is the better choice for you or if having both types of accounts makes sense depends on a number of factors, such as your life expectancy, current and future income and tax brackets, cash needs in retirement and the tax status of your beneficiaries. Generally speaking, for those in a high tax bracket today, the contributions that can be made to a traditional IRA can be highly beneficial in lowering annual income amounts for income tax purposes, assuming you qualify for a tax deduction. Many people in this category can also benefit from a traditional IRA when withdrawing the funds at retirement since they may be in a lower tax bracket (withdrawals from a traditional IRA are taxed at ordinary income tax rates).

Converting a Traditional IRA to a Roth IRA

Individuals also have the option of converting an already-established traditional IRA to a Roth IRA. Initiate the conversion only if it fits your long-term plan and goals.

The IRS will collect federal tax on a Roth IRA conversion with the rest of your income taxes due on the return you file for the year of the conversion. The ordinary income generated by a Roth IRA conversion generally can be offset by losses and deductions reported on the same tax return. You should avoid using the funds that are being converted from your Roth to pay the tax on the conversion. By doing so, you will have less left in the account to potentially grow tax free and, if you are under 59½, you'll also incur a 10% penalty on the amount you don't convert to the Roth IRA. Also, keep in mind you may be required to make estimated tax payments in the year of the conversion, before you file your annual return.

The Roth 401(k)

Roth 401(k)s allow employers to add a Roth feature to a 401(k) plan. This feature lets employees designate all or a portion of their 401(k) contributions as "designated Roth contributions." These contributions are held in a separate account from the employee's traditional 401(k) and handled similarly to a Roth IRA, i.e., contributions would not be tax deductible, and distributions are generally tax free. Note that only employee elective deferrals may be added to the Roth 401(k)—employer matches and forfeitures cannot.

How does the Roth 401(k) differ from the Roth IRA? For one thing, contribution limits are higher. They are comparable to traditional 401(k) contribution limits ($23,500 in 2025, $31,000 if age 50 or older),[1] and there is no adjusted gross income limitation to phase out the employee's ability to contribute to a Roth 401(k). Those 60 to 63 can contribute an additional $11,250 in 2025 in place of the $7,500, if your plan allows. Effective in 2024, RMDs are no longer required from a Roth 401k similar to a Roth IRA.

So, if an employer offers a Roth 401(k), does it make more sense than a traditional 401(k)? Once again, the answer depends on your particular situation. Adding to the list of factors we outlined in the IRA discussion, expected work life, compensation level, current amount in traditional 401(k) and expected rates of return should also be considered.

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[1] irs.gov

*Inherited IRAs are subject to different rules. Check with your financial advisor.