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## Key considerations for Roth vs. Traditional IRA contributions
*by Blake Anderson*

One of the questions we often hear from our P&A Clients is, "Which is the better retirement account to put money into – a Roth or Traditional?" The answer to this question is, most often, "It depends." There are many factors to consider in making the decision, and they require some assumptions (guesses) about what will happen in the future. We will look a bit closer at some of the major factors in the decision process:

**Your Marginal Income Tax Rate Now**: The higher your tax rate is now, the more tax savings potential you will get from a contribution to a traditional retirement account. Contributions to a traditional IRA (or 401k) are made pre-tax, meaning you will reduce your taxable income by making these contributions. If you believe your tax rate now will be higher than in retirement, then it often makes sense to take advantage of these pre-tax contributions. However…

**Tax Rates in the Future**: This is the hardest factor to accurately assess. If we knew exactly what tax rates would be in the future, this analysis would become more of a math problem. Some say that we are in a historically low tax environment and rates will only go up in the future, inferring Roth contributions are the better option. However, I would point out that, in the late 1980s, the top tax bracket peaked out at a mere 28%. If you expect to be in a higher tax bracket in the future (retirement), contributions to a Roth get more attractive, as the withdrawals in the future are tax-free.

**Balance of Pre-Tax vs. After-Tax Investments**: Having all, or the vast majority, of your investments in traditional retirement accounts might create challenges as you begin to take your required minimum distribution (RMD) at age 72. Distributions out of a traditional retirement account are counted as taxable income. If you have a large retirement account balance, your tax rate may increase as you begin to take RMDs from your account. A mix of investments across traditional and Roth retirement accounts, as well as after-tax monies, can help you better manage your income sources in retirement.

**Company Match**: This one won't apply to everyone, but if you are part of a company 401k plan that offers a Roth option, be careful where you allocate your employee contributions. Most often, the company match will be made based on the amount you contribute to the traditional portion of your 401k (and the company match is always made into the traditional 401k portion, too). So, if you have a Roth option in your 401k, it is often best to "fill up" you traditional 401k contribution bucket to get the full company match.

**Income Limits**: If you don't have a Roth option through your employer plan and are considering a Roth IRA, know that once your modified adjusted gross income (MAGI) exceeds $206,000, you are not eligible to contribute to a Roth IRA.

As is the key with most financial decisions, you need to understand your options and the potential impacts – both now and in the future – of the decision you make. It is also important to recognize that what makes sense today might not be the best option a few years down the road.

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