R O T H

The benefit of ROTH registrations, whether it is an IRA or a company 401k, can add up to a significant portion of your retirement. Paying your taxes earlier on in life allows for the ROTH to grow for years while benefiting you with tax free withdraws once you reach retirement. As a younger investor, you might be in a lower tax bracket than you will be in retirement. This means you are paying less tax on the principal than what you would in a TRADITIONAL account upon withdrawal. Additionally, unlike a TRADITIONAL IRA, there are no required withdraws (RMD's) once you reach age 70 ½.

New Albany
Investment Management

Traditional		Roth
$10,000	Income	$10,000
No taxes paid up front	Taxes in a lower tax bracket	at 18% $1,800
		$8,200
	Growth Rate of 5% for 40 Years	
$70,400	Account Value at Retirement Age	$57,728
at 28% $19,712	Taxes in a higher tax bracket	None paid at withdraw
$50,688	Net	$57,728

Traditional IRA: Your tax break is up front and you don't pay taxes until you withdraw it.

Roth IRA: All contributions are already taxed. All withdrawals are tax free after age 59 ½.

Typically, a person is making less and is in a lower tax bracket earlier on in life. In that situation, it is beneficial to pay the taxes up front and let the savings grow tax free. The chart above shows the difference a ROTH can make in your financial future. Assume you want to put $10,000 away in savings. In the ROTH, you incur the taxes now, paying $1,800, leaving $8,200 to put away for retirement. Both accounts grow for 40 years at 5% and at retirement the ROTH is worth $57,728 compared to the TRADITIONAL at $70,400. However, the TRADITIONAL IRA will be taxed at your current income rate (example 28%) with the net value being only $50,688. Meanwhile, the ROTH grew tax free and not a single dollar will be taxed at withdrawal. Questions on ROTH vs Traditional IRA's? Give us a call, let chat!

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