Traditional vs. Roth IRA: The Choice Just Got More Interesting

(NAPSA)—How high do you think your taxes are headed? The answer to that—along with other factors—could help you decide which retirement accounts may make sense for you: Traditional IRA, Roth IRA or both?

The decision became more significant this year because the income limits for converting Traditional IRAs into Roth IRAs were removed. (As were those affecting SEP and SIMPLE IRAs and workplace savings plans with former employers like 401(k)s.) Already, Fidelity Investments says that Roth IRA conversions have increased and that Roth IRAs are more popular among new investors—and you can judge for yourself why.

Contributions to Traditional IRAs may provide an immediate tax deduction for those who meet certain basic income and other requirements, but taxes are ultimately due on amounts withdrawn. On the other hand, Roth IRA contributions are not deductible, but may leave you free from federal income tax as long as you keep the money in for at least five years and are 59½ or older when you take it out.

In other words, Roth IRAs, as Keri Dogan, a senior vice president at Fidelity Investments, puts it, are a potential "hedge" against future higher federal income tax rates.

"Most investors should consider having a Roth IRA as part of their overall retirement plan to potentially help minimize taxes and maximize retirement savings," she says.

Many higher earners in particular appear to have already gotten the message. Hence the heightened interest in Roth IRA conversions, which until 2010 had been limited to those with modified adjusted gross incomes of $100,000 or less.

Financial adviser (right) helps a couple decide which type of IRA suits them best.

Factors To Consider

First, know that both types of IRAs currently have the same annual contribution limit: $5,000 (or $6,000, for those age 50 and older). Also, if you're opening a new Roth IRA—as opposed to converting from a Traditional IRA—income limits to make any Roth IRA contributions still apply (a modified adjusted gross income of less than $120,000 if single and less than $177,000 if married and filing jointly).

That said, here are three important issues to discuss with your financial adviser:

- Is not having to take "required minimum distributions" starting at age 70½ a critical factor?
- Do you anticipate being in a lower tax bracket after you retire?
- Are you a young professional with time for potential big earnings gains?

Finally, if you'd like to see whether a Roth IRA conversion may make financial sense for you, check out the Roth Conversion Evaluator at www.fidelity.com/IRA.