



The Two IRAs

Which is Better, Roth or Regular?

By Kevin Bourke

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What is the difference between IRAs and Roths? How do I know which one to use?

-Confused in San Luis Obispo

Dear Confused in SLO,

An **Individual Retirement Arrangement** is an account that allows those who qualify to deposit money into an account pretax, which then grows tax-deferred. The account holder may begin withdrawing money without penalty at age 59, although **the money withdrawn is taxable income**.

Think about the advantages this way. Imagine yourself walking down the street, taking three steps forward, and one step back. This is what happens when your investments are taxed. For each bit of progress you make, taxes take their toll.

An IRA allows you to bypass the one step back part. **This tax deferred growth can add significantly to your retirement portfolio**. It's a great idea that has served millions of Americans well.

With a Roth IRA the investor deposits money into an account, but receives no tax relief. The deposit is made with aftertax money.

Because a Roth IRA potentially grows tax free, as opposed to tax deferred, the money comes out whole, free of pesky income taxes, when you make a withdrawal. There are some caveats so you'll want to consult your tax professional.

How to decide? The IRS will decide for you if your income is above certain limits. For singles earning over \$114,000 or couples earning over \$166,000, the Roth is no longer an option in 2007.

But, the potential advantages for someone who qualifies to use a Roth IRA are huge. A 30-year-old depositing \$4,000 this year and enjoying an average return of 8% over the next 30 years would be able to take a withdrawal at the age of 66 of approximately \$63,000 completely tax free. Add in annual contributions at \$4,000 per year until they turn 66? The balance skyrockets to nearly \$900,000. (This is a hypothetical example and is not representative of any specific situation. Your results will vary.)

The way the law reads today, Roth IRAs can be a very good deal for those who qualify.

Book pick of the week; *The Intelligent Investor* by Benjamin Graham. Warren Buffett called it “by far the best book on investing ever written.”

Kevin Bourke is a registered principal with and offers securities through Linsco/Private Ledger. The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.