Comparison

Traditional vs. Roth IRAs

As the name suggests, an Individual Retirement Account (IRA) can help you save and invest for retirement. Depending on which type you select, traditional or Roth, you'll receive certain tax and savings advantages–powerful tools to help you with your retirement goals. But as you'll see below, there are several differences between traditional and Roth IRAs. Learning about them can help you decide which is better for you.

SAVING FOR RETIREMENT: TWO APPROACHES

	Traditional IRA	Roth IRA
Contributions	• Must generally be from employment compensation. • May be tax-deductible, potentially lowering your taxable income.	• Must generally be from employment compensation. • Grow tax-free. • Do not lower your taxable income, and contributions are from taxable income.
Earnings	• Grow on a tax-deferred basis but are taxed upon withdrawal–typically during retirement, when most individuals are in a lower tax bracket.	• Grow tax-free.
Withdrawals	• Can begin at age 59½ without penalty, though ordinary income tax will generally apply; withdrawals taken before age 59½ may incur a 10% penalty. • IRA owners age 70½ or older can still transfer up to $100,000 each year plus a one-time opportunity to use a qualified charitable donation of up to $50,000 to fund a split interest entity, – if you wanted to include this provision, directly to a charity unless they contributed to their IRA after age 70½, in which case certain SECURE Act limitations apply.	• Are tax-free provided they meet certain qualifications and requirements. • If you've held a Roth IRA, including converted accounts, for less than five years and with-draw earnings before reaching age 59½, you may be subject to income tax and a 10% early withdrawal penalty. Exceptions to the penalty for early withdrawal are the same as those with a traditional IRA.
Required Minimum Distributions	• Initial required minimum distribution must be taken by April 1 of the year following the year you turn 73 and annual minimum distributions be taken by December 31 each year thereafter. However, if you turned 72 on or before December 31, 2022, your initial required minimum distribution must have been taken by April 1 of the year following the year you turned 72 and annual minimum distributions be taken by December 31 each year thereafter, which will continue.	• No required minimum distributions. The absence of RMDs can help with estate building.*

* Please contact your tax advisor for additional information.

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Welcome what's next

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	Traditional IRA	Roth IRA
Income Eligibility Limits	• None, but if covered by a workplace retirement plan or your spouse is covered by one, income limits apply for deducting annual contributions.	• Various limits apply. • Please see the IRS website for current information. https://www.irs.gov/retirement-plans/traditional-and-roth-iras
Benefits Common to Both	• Penalty-free early withdrawals when certain conditions are met. • The ability to make "catch-up" contributions if age 50 or above. • Nonworking spousal contributions. • The option to invest in different financial instruments, such as stocks, bonds, mutual funds, ETFs, CDs and money market funds subject to product availability at the financial institution holding your account.	

ACCESSING YOUR MONEY

Traditional IRA

Withdrawals are permitted at any time and subject to ordinary income tax. But withdrawals taken before age 59½ will also incur a 10% penalty for early withdrawal. Penalty-free conditions include:

- Death or disability
- Qualified higher education expenses
- Qualified birth or adoption distributions of not more than $5,000 within 1 year of the birth or adoption which may be repaid. To qualify as a rollover, it must be repaid within three years of the distribution. Such distributions made prior to December 22, 2022 must be repaid by December 31, 2025 to constitute a rollover.
- First-time home purchase (up to $10,000)
- Health insurance premium payments after 12 consecutive weeks of unemployment
- Qualified reservist distribution
- Qualified federally declared disaster

Roth IRA

Contributions can be withdrawn at any time without taxes or penalties. If you've held a Roth IRA, including converted accounts, for less than five years and withdraw earnings before reaching age 59½, you may be subject to income tax and a 10% early withdrawal penalty. Exceptions to the penalty for early withdrawal are generally the same as those with a traditional IRA, and qualified birth or adoption distributions may similarly be repaid. To qualify as a rollover, the amount must be repaid within three years of the distribution. Such distributions made prior to December 22, 2022 must be repaid by December 31, 2025 to constitute a rollover.

* Please contact your tax advisor for additional information.

To Get Started

Citi Personal Wealth Management is committed to helping you work toward your financial objectives and a more secure future. To learn more about strategies that may help you reach your goals, speak to a Citi Personal Wealth Management Financial Advisor.

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Before You Act:

Know the Rules on IRA and Retirement Plan Rollovers

If you're considering rolling over money from an Individual Retirement Account (IRA) or employer retirement plan, make sure you understand the rules before making a decision, including that you may be able to leave your money where it is. Here's a brief summary:

Employer Retirement Plans. When leaving an employer, you typically have four options on what to do with your retirement benefit in an employer sponsored retirement plan (and may engage in a combination of these options):

- Leave the money in the former employer's plan, if permitted;
- Roll over the assets to a new employer's plan, if one is available and rollovers are permitted;
- Roll over to an IRA (traditional or Roth); or
- Cash out the account value.

In many cases, you don't have to act immediately upon switching jobs or retiring. The decision to transfer funds out of an employer's plan is irrevocable. Before making a decision, take time to assess factors such as your age, financial needs, personal situation, fees and expenses, investment options and services.

IRA Rollovers. Unlike employer retirement plans, IRAs have different rules on rollovers, including that you can make only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs you own.

To learn more about rollover rules, speak with one of our Citi Personal Wealth Management Financial Advisors, who follow practices and procedures to ensure clients are receiving the most appropriate guidance for their individual situations.

The transfer, rollover and withdrawal of retirement assets in IRAs, 401(k)s and other types of qualified accounts are governed by specific rules and laws and may involve significant tax consequences and limitations. Before making any decisions regarding the disposition of your retirement accounts, please consult your tax advisor or accountant.

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