

Roth vs Traditional Investment Examples:

This is an example of how your SRA contributions can turn out to be tax savings in the end under both kinds of accounts.

	Contributes to a Roth SRA	Contributes to a Traditional SRA
Annual Income	\$30,000	\$30,000
Pre-Tax Retirement Contributions	\$0	\$6,000 (\$500/month)
Taxable Income	\$30,000	\$24,000
Federal taxes paid annually*	\$7,500*	\$6,000*
Post-Tax Retirement Contributions	\$6,000 (\$500/month)	\$0
Spendable Take-Home Pay	16,500	18,000
Total Retirement Savings After 30 Years**	\$474,349**	\$474,349**
Federal taxes owed at withdrawal*	\$0	\$71,152*
Take-Home Retirement Savings	\$474,349	\$403,197

*Based on a federal tax withholding rate of 25% while working and 15% in retirement.

**Based on a contribution rate of \$6,000 per year, and 6% annual return rate.

The person who contributed to a traditional SRA account saved \$45,000 in taxes over 30 years. However, at retirement s/he will owe \$71,152 in taxes on her retirement income. Over a lifetime, the person who contributed to the Roth account will have paid \$26,152 less in taxes, and will have a smaller tax obligation in retirement, when his/her income is fixed and limited. That's a substantial advantage!

So why would a person in similar circumstances contribute to a traditional account?

Contributing to the traditional SRA account saves \$1,500 per year (\$125 per month), which is effectively additional spendable income. These immediate tax savings may have been why s/he could afford to contribute \$500 per month in the first place!

Let's assume that the person could not afford to have spendable income of less than \$18,000 per year. This means that she/he would have only been able to afford to contribute \$375 per month into a Roth account. His/her total retirement savings after 30 years would be more than \$120,000 less than someone who had put aside \$500 per month. That extra \$125 adds up to a

lot, when you factor in compounding interest. The additional savings made possible by using pre-tax dollars adds up to far more than the taxes owed in retirement for this person.

What are your circumstances?

Obviously, there are many factors to consider when deciding whether to invest in a Roth or traditional account. Your current tax rate and your anticipated tax bracket in retirement, the amount you can afford to contribute under each kind of plan, the number of years you have until retirement, and other factors all alter the figures for your situation. Contact a TIAA-CREF or Vanguard professional, or a financial advisor, to help you determine the best investment option for you.