Advantages and Disadvantages of Roth IRAs

Saving for retirement is critical to financial security. Fortunately, the government provides some tax incentives, if you qualify.

Even though Roth IRAs have been around for more than a decade, many people are not aware of exactly how they work. They also may not know that there are no longer income restrictions in place to convert a traditional IRA into a Roth.

If you qualify, you can make a contribution to a Roth IRA of $5,500 in 2017 or $6,500 if you are age 50 or older (unchanged from 2016).

Here are the basic advantages and disadvantages of the accounts, as well as how they differ from traditional IRAs.

Advantages	Disadvantages
Withdrawals from a Roth IRA are tax-free as long as the account has been open at least five years and you are age 59 1/2 or older. In contrast, withdrawals from a traditional IRA are taxable.	Roth IRA contributions are not tax deductible so you do not get a benefit on your current tax return. In contrast, contributions to a traditional IRA are deductible for qualified individuals. (Traditional IRA eligibility for tax breaks depends on your income and whether you — or your spouse, if filing jointly — are covered by an employer's retirement plan.)
Age-based distributions are not required so the account can continue to grow tax-free for decades and can be passed on to your heirs tax free. In contrast, a traditional IRA requires you to begin taking withdrawals at age 70 1/2 or face steep penalties.	Contributions do not reduce your adjusted gross income (AGI), which may make you eligible for other tax breaks. In contrast, contributions to a traditional IRA do reduce your AGI if you meet certain qualifications.
You can make contributions to your Roth IRA after you reach age 70 1/2 if you have earned income. In contrast, individuals age 70 1/2 or older cannot make contributions to a traditional IRA.	Since some individuals may never live to see retirement age, they might not experience and enjoy the tax benefits of a Roth IRA.
You can still contribute to a Roth IRA even if you participate in other qualified retirement plans.	You cannot contribute to a Roth if your income is above certain limits. For 2017, eligibility to make annual Roth contributions is phased out between modified adjusted gross income (MAGI) of $118,000 and $133,000 for unmarried individuals. For married joint filers, the 2016 phase-out range is between joint MAGI of $184,000 and $194,000 (in 2016 the ranges were $117,000 to $132,000 and $184,000 to $194,000 respectively).
Spouses or beneficiaries of deceased Roth IRA owners can combine the inherited funds with their own Roth IRA accounts without a penalty.	Congress may decide to change the tax-free withdrawal allowance for Roth IRAs in the future.

This chart only covers some of the advantages and disadvantages of Roth IRAs. The complexity of the tax laws covering traditional and Roth IRAs can make it difficult to decide between the options. Consult with your tax advisor about the best way to make contributions to retirement accounts to maximize the tax benefits and your future financial security.

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