

Traditional IRA or Roth IRA

Which is right for you?

There are important differences between a traditional Individual Retirement Account (IRA) and a Roth IRA — and your choice depends on factors such as your age, current income, distribution goals and tax objectives. Both types of IRAs can help you enhance your total financial picture and potentially build wealth for retirement.

This fact sheet is intended to be educational in nature. You will need to check with your tax advisor to determine whether you are eligible to contribute to a traditional or a Roth IRA.

What are the differences?

Traditional IRA

In general, almost anyone with earned income is eligible to contribute to a traditional IRA.¹ By contributing to a traditional IRA, your assets have the opportunity to grow tax-deferred and distributions taken once you turn age 59½ generally are taxed as ordinary income. (See page 2 for information regarding a 10% additional federal tax that may apply if you take a distribution before you turn age 59½.) Your contributions may be tax-deductible, depending on your tax-return filing status, your modified adjusted gross income and whether you or your spouse are eligible to participate in employer-sponsored retirement plans.

The required beginning date for RMDs is age 73. You still may defer your first RMD until April 1 of the year after you turn age 73, however you will then be required to take two distributions within that year.²

Roth IRA

To be eligible to contribute to a Roth IRA, your Modified Adjusted Gross Income (MAGI) must be below specified limits. If you are eligible, your annual contributions are made with after-tax dollars and are not tax-deductible. (See the chart on page 3 for detailed eligibility requirements and MAGI limits.) However, you are not required to pay federal (and possibly

state) income tax on distributions of earnings if five years have passed since the first day of the year in which you made your first Roth IRA contribution or conversion, if earlier, and are age 59½ or older, or you meet another exception. Contributions can be withdrawn at any time. The original account owner is never required to take RMDs from a Roth IRA.

Annual contribution limits	Traditional and Roth IRA
	2023
For individuals under age 50	\$6,500
For individuals age 50 and older (includes catch-up contribution)	\$7,500

What features do they share?

Build wealth for your retirement

- The contribution limits for both types of IRAs may increase due to cost-of-living adjustments in future years. Your annual contribution can be made at any time during a particular year or as late as that year's federal tax-return due date the following year.

Diversify your portfolio

- Ability to choose from a wide range of investments, including stocks, bonds and mutual funds.

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- Ability to rebalance the investments in your account regularly without generating any current tax liability. Asset allocation, diversification and rebalancing do not ensure a profit or protect against loss in declining markets.

Careful consideration should be given to potentially tax-advantaged investments held in your IRA

- Tax-exempt investments, such as municipal bonds, would be subject to tax at the time of withdrawal from a traditional IRA, because IRA distributions generally are taxable regardless of whether certain investments held in your account are otherwise tax-exempt.
- Dividends and earnings on investments in foreign securities and foreign mutual funds may be subject to foreign withholding taxes. A U.S. foreign tax credit may not be available for those foreign withholding taxes on investments in an IRA because there are no U.S. taxes owed until a distribution is made. As a result, the effective yield on foreign securities and foreign mutual funds held in your IRA may be lower than the effective yield of identical investments held in a non-retirement account.
- You may find it preferable to hold tax-exempt or foreign investments in a taxable investment portfolio, should you have one, instead of your IRA.
- Due to the potential generation of unrelated business taxable income, you generally should consider holding any interest in a flow-through entity (such as a partnership, limited liability company or master limited partnership) in your taxable investment portfolio, not in your IRA.

Please consult with your tax advisor if you have questions regarding potentially tax-advantaged investments and your specific tax situation.

Understand the early-withdrawal tax

- Taking distributions from traditional IRAs before you reach age 59½ generally will result in not only ordinary income tax, but also a 10% additional federal tax. Exceptions to this additional tax include, but are not limited to, withdrawing assets to buy your first home or to pay for qualified higher education expenses. The 10% additional federal tax may also apply to the taxable portion of early withdrawals from a Roth IRA. Account owners may take qualified birth or adoption distributions without incurring the additional 10% federal tax on early withdrawals from an IRA. Qualified birth or adoption distributions can be up to \$5,000 per child and must be taken within one year of the date of birth or the date the adoption is finalized, as applicable.

- You also can withdraw Substantially Equal Periodic Payments (SEPPs) from your IRA, calculated using one of three methods, without incurring the 10% additional federal tax. These distributions are still taxed as ordinary income and must continue for the longer of five years or until you reach age 59½.³
- IRS Publication 590 provides more details if you need to take an early distribution. You should consult your own tax advisor before taking such a distribution.

What is a Roth IRA conversion?

A Roth IRA conversion occurs when you distribute assets from an eligible pre-tax retirement account (such as a traditional IRA or a pre-tax account in an employer-sponsored retirement plan) and roll them into a Roth IRA, either directly or within 60 days of the distribution. Through the conversion, the assets in the Roth IRA become after-tax assets that may create tax-free retirement income, if the qualified distribution requirements are met, for you and potentially for your beneficiaries. The amount of pre-tax assets converted in a Roth IRA conversion are included in your taxable income for the year the conversion occurs.

There are important tax considerations to understand and evaluate before beginning a conversion. Talk to your tax advisor and financial advisor before taking any distributions from an IRA or your employer-sponsored retirement plan.

What are the benefits of a Roth IRA?

- A Roth IRA may potentially generate tax-free income for you (or for your beneficiaries after your death).⁴
- Original account owners are not subject to RMD rules unlike traditional IRAs. (Beneficiaries are required to take distributions upon inheritance.)²
- Qualified distributions are federal (and possibly state) income tax-free.⁵

How does a Roth IRA conversion work?

- Anyone (regardless of income level) can make a conversion, but your ability to make a regular contribution to a Roth IRA is still subject to existing Modified Adjusted Gross Income (MAGI) limitations.
- When you convert, you must pay ordinary income tax on any pre-tax assets that you transfer. To help maximize the potential benefits of conversion, the money to pay the tax should come from a source outside your retirement account(s).
- If you take a distribution of your retirement assets to pay the associated conversion taxes, that distribution would itself be subject to income taxes and a possible 10% additional tax prior to age 59½.
- You can convert part or all of your pre-tax retirement account to a Roth IRA.

When does a Roth conversion make sense?

You may want to discuss Roth conversions with your financial advisor if one or more of the following situations apply to you:

- You expect to be in a higher tax bracket in retirement or you want to diversify the tax status of your portfolio.
- Your current portfolio has declined in value, so converting now could lower the tax obligation based on lower asset values.
- You don't need the money in your retirement account to pay for living expenses in retirement and you'd like to leave your retirement account assets to your children or other heirs free from federal (and possibly state) income taxes.⁴

Determine which IRA is right for you

	Traditional IRA	Roth IRA
Eligibility	Individuals with earned income are eligible ⁶	Individuals of any age with earned income are eligible For 2023: Single or head of household tax filers <ul style="list-style-type: none"> • Full contributions⁷ with MAGI of less than \$138,000 • Partial contributions with MAGI between \$138,000 and \$153,000 Married, filing jointly <ul style="list-style-type: none"> • Full contributions⁷ with MAGI of less than \$218,000 • Partial contributions with MAGI between \$218,000 and \$228,000 Married, filing separately <ul style="list-style-type: none"> • Partial contributions with MAGI between \$0 and \$10,000 For 2022: Single or head of household tax filers <ul style="list-style-type: none"> • Full contributions⁷ with MAGI of less than \$129,000 • Partial contributions with MAGI between \$129,000 and \$144,000 Married, filing jointly <ul style="list-style-type: none"> • Full contributions⁷ with MAGI of less than \$204,000 • Partial contributions with MAGI between \$204,000 and \$214,000 Married, filing separately <ul style="list-style-type: none"> • Partial contributions with MAGI between \$0 and \$10,000
Tax Deductibility of Contributions	Contributions are tax-deductible if neither you nor your spouse are eligible to participate in an employer-sponsored retirement plan. ⁸ If you and your spouse are eligible to participate, the deductibility limits are as follows: For 2023: Single and head of household tax filers <ul style="list-style-type: none"> • Full deduction with MAGI of \$73,000 or less • Partial deduction with MAGI more than \$73,000 but less than \$83,000 Married, filing jointly <ul style="list-style-type: none"> • Full deduction with MAGI of \$116,000 or less • Partial deduction with MAGI more than \$116,000 but less than \$136,000 Married, filing separately <ul style="list-style-type: none"> • Partial deduction with MAGI between \$0 and \$10,000 For 2022: Single and head of household tax filers <ul style="list-style-type: none"> • Full deduction with MAGI of \$68,000 or less • Partial deduction with MAGI more than \$68,000 but less than \$78,000 Married, filing jointly <ul style="list-style-type: none"> • Full deduction with MAGI of \$109,000 or less • Partial deduction with MAGI more than \$109,000 but less than \$129,000 Married, filing separately <ul style="list-style-type: none"> • Partial deduction with MAGI between \$0 and \$10,000 • Nondeductible contributions also are permitted 	Contributions are not tax-deductible

	Traditional IRA	Roth IRA
Taxation of Earnings	Earnings will not be taxed until withdrawn	Earnings are subject to tax only if they are not part of a "qualified distribution." (See Early-Withdrawal Tax below.)
Taxation of Distributions	Withdrawals composed of earnings and deductible contributions are subject to ordinary income tax (and possibly a 10% additional federal tax for early withdrawal)	Qualified distributions are free of federal (and possibly state) income tax ⁵
Required Minimum Distributions (RMDs)	The required beginning date for RMDs is age 73. You still may defer your first RMD until April 1 of the year after you turn age 73, however you will then be required to take two distributions within that year (unless an exception applies). ²	None are required during the lifetime of the original account owner
Early-Withdrawal Tax	Distributions before age 59½ may be subject to a 10% additional federal tax on the taxable portion of the distribution, in addition to any ordinary income tax. Exceptions to this general rule include, but are not limited to, distributions for a first-time home purchase, qualified higher education expenses, the account owner's death or disability, IRS levy, SEPPs and certain medical expenses. Account owners may take qualified birth or adoption distributions without incurring the additional 10% federal tax on early withdrawals from an IRA. Qualified birth or adoption distributions can be up to \$5,000 per child and must be taken within one year of the date of birth or the date the adoption is finalized, as applicable.	
Cost Considerations	There is no difference in cost for a traditional IRA or a Roth IRA. Any difference in cost is due to the underlying investments held within the account. Both traditional and Roth IRAs offer the same variety of investment choices.	

How can you get started?

If you're seeking a potentially tax-advantaged way to invest for retirement, call your Merrill Lynch Wealth Management Advisor to discuss whether a traditional or Roth IRA is appropriate for you. If you have a large account balance in a traditional IRA or former employer's retirement account, your financial advisor can work with you and your tax advisor to help you evaluate whether a Roth conversion makes sense for your personal situation.

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You have choices about what to do with your 401(k) or other type of plan-sponsored accounts. Depending on your financial circumstances, needs, and goals, you may choose to roll over to an IRA or convert to a Roth IRA, roll over a 401(k) from a prior employer to a 401(k) at your new employer, take a distribution, or leave the account where it is. Each choice may offer different investments and services, fees and expenses, withdrawal options, required minimum distributions, tax treatment (particularly with reference to employer stock), and provide different protection from creditors and legal judgments. These are complex choices and should be considered with care.

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For additional information on Roth and traditional IRAs, please refer to IRS Publication 590.

¹ See eligibility chart on pages 3 and 4.

² Effective 1/1/2023, the required beginning date is April 1 of the year after you turn age 73. You are required to take an RMD by December 31 each year after that. If you delay your first RMD until April 1 in the year after you turn 73, you will be required to take two RMDs in that year. You may be subject to additional taxes if RMDs are missed. Please see your tax advisor regarding your specific situation.

³ You should consult your tax advisor before beginning SEPPs. Failure to continue withdrawals for the required time or in the required amounts can result in retroactive assessment of the 10% additional federal tax, plus interest on all prior SEPP distributions.

⁴ For both the original account owner and beneficiaries, qualified distributions from a Roth IRA are generally federal income tax-free. State taxes may apply in both cases. For beneficiaries, there may be estate taxes due or additional tax on distributions of earnings and conversions. You should check with your tax advisor for questions specific to your situation.

⁵ For a distribution from a Roth IRA to be federal (and possibly state) income tax-free, it must be qualified. A qualified distribution from your Roth IRA may be made after a five-year waiting period has been satisfied (this period begins January 1 of the tax year of the first contribution or the year of conversion to any Roth IRA) and you (i) are age 59½ or older, (ii) are disabled, (iii) qualify for a special purpose distribution such as the purchase of a first home (lifetime limit of \$10,000), or (iv) are deceased. If you receive a non-qualified distribution from your Roth IRA, any earnings distributed generally will be subject to ordinary income tax, plus a 10% additional federal tax if received before age 59½ unless an exception applies.

⁶ Anyone may make a Roth IRA or traditional IRA contribution if they have earned income regardless of their age. A spouse can also contribute on behalf of a spouse who has no earned income provided the contributing spouse has enough earned income to cover the contributions. Regardless of your situation, you should consult with your professional tax advisors before making any tax-related investment decisions.

⁷ For 2023, if you are not eligible to participate in an employer-sponsored retirement plan, but your spouse is eligible, you can make fully tax-deductible contributions to a Roth IRA if you file jointly and your MAGI is \$218,000 or less. You can make partially deductible contributions with MAGI more than \$218,000 but less than \$228,000. If you file separately, the partial deduction phase-out for MAGI between \$0 and \$10,000 applies.


⁸ For 2023, if you are not eligible to participate in an employer-sponsored retirement plan, but your spouse is eligible, you can make fully tax-deductible contributions to a traditional IRA if you file jointly and your MAGI is \$116,000 or less. You can make partially deductible contributions with MAGI more than \$116,000 but less than \$136,000. If you file separately, the partial deduction phase-out for MAGI between \$0 and \$10,000 applies.

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