Should I Contribute to My Roth or Traditional IRA?

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Understanding the value of diversification across pre- and post-tax retirement accounts can help you with flexibility in retirement. While both Roth and traditional Individual Retirement Accounts (IRAs) can help you save for retirement on their own, when used together they can help you control future reportable income. With more control of your future income, you can stay below certain tax thresholds.

Investors will rarely contribute to both accounts in a single calendar year, meaning it's crucial to know which account will provide the greater benefit from your contribution. More often than not, those who begin with a Roth IRA transition to a traditional IRA as their income increases.

What Questions Should I Consider When Picking the Best IRA Strategy?

1. Am I Eligible to Deduct My Traditional IRA Contributions?

Deductions reduce your taxable income for the year and are therefore quite useful for tax planning. Your eligibility for deductions depends on your tax filing status, other retirement plan contributions, and your Modified Adjusted Gross Income (MAGI). If you are eligible to deduct your traditional IRA contributions, you should consider future income and tax implications before deciding to contribute to either a Roth or traditional IRA.

2. Will My Future Tax Rate Be Higher?

If you expect to be in a higher marginal tax bracket in your retirement, you should likely contribute to your Roth IRA. The money you contribute to your Roth IRA will not provide any tax benefit in the year of deposit. Distributions will be tax-free in the years you are in a higher tax bracket. Therefore, you are locking in your current tax rate on Roth funds to avoid higher ones in the future.

However, you should contribute to a traditional IRA if you anticipate being in a lower marginal tax bracket in retirement and you can deduct your contribution. Traditional IRA money provides an immediate tax reduction and is taxed upon distribution at the rates of the year it is withdrawn.

3. Will I Need Retirement Income From My IRAs?

If you have other supplemental income sources (e.g., pension, Social Security, rental income, etc.) you may not need distributions from your IRAs in retirement. In that case, you should consider contributing to your Roth IRA, since Roth dollars are not subject to Required Minimum Distributions (RMDs). This strategy helps avoid adding required distributions on top of other income sources, resulting in unnecessary taxes.

4. Do I Plan On Donating to Charity in Retirement?

If you're charitably inclined and plan to donate during retirement, the tax benefits of a traditional IRA are hard to ignore. Once you are 70 ½ or older, you can make transfers up to $105,000 directly from your traditional IRA to eligible charities and have such amounts excluded from your taxable income. This donation will be considered a Qualified Charitable Distribution (QCD) and will not be taxed. This QCD strategy is far more tax-efficient than withdrawing funds from your IRA, which will be taxed, and then donating the same amount to charity. Keep in mind, you have to start taking withdrawals from your traditional IRA starting at age 73. For those who don't need retirement income from their IRA, QCDs are a tax-efficient strategy that counts toward your RMD.

Am I Eligible for Both?

IRS income limits may restrict your eligibility to make a Roth IRA contribution. For the 2023 tax year, single filers must have a Modified Adjusted Gross Income (MAGI) under $153,000 to be eligible to contribute to a Roth account. For married couples filing jointly, your MAGI must be below $228,000. While these income limits have been adjusted for 2024, you can still make 2023 IRA contributions until April 15, 2024.

A loophole known as the Backdoor Roth Contribution may allow high earners (those who have MAGI over the stated limits) to still make deposits to a Roth IRA. Two requirements for this strategy to work include having no pre-tax money in your IRAs (traditional, rollover, SEP, and SIMPLE) and ensuring no rollovers from a pre-tax 401(k) or other retirement plans are done in the same calendar year as a backdoor contribution. Since implementing backdoor Roth contributions can be difficult, we recommend consulting with an advisor before using this strategy.

The Bottom Line

If you’re eligible to contribute to both a Roth and traditional IRA account, the tax diversification can benefit you in the long run. However, you need to consider current and future tax implications when choosing where to allocate savings. Check out our free flowchart for a visual recap of which IRA you should contribute to.