LEGG MASON
GLOBAL ASSET MANAGEMENT

Retirement Reimagined® | 2020

WHICH TYPE OF IRA IS RIGHT FOR YOU?

Individual Retirement Accounts (IRAs) help investors save for retirement by providing a significant tax advantage over conventional investment accounts.

Both Traditional and Roth IRAs allow investors to build and manage investment portfolios without owing any current taxes on any interest, dividends and capital gains generated by investments while inside the IRA.

While both types of IRAs offer this tax advantage, there are significant differences between Traditional and Roth IRAs.

TRADITIONAL IRA
VS. ROTH IRA

Use this checklist to help determine whether a Traditional IRA or a Roth IRA might make more sense for you in light of your personal circumstances. Then, discuss your findings with your financial professional.

TRADITIONAL IRA

You may want to consider a Traditional IRA if...

- ☐ **A tax break now is more important than a future tax break in retirement.** Contributions to a Traditional IRA may be tax deductible depending on your income and whether you and your spouse are covered by a retirement plan at work (see next page). If you are in a high income tax bracket now but anticipate being in a lower tax bracket during retirement, a current tax deduction may be attractive to you. Generally, the earnings and deductible contribution portions of distributions from a Traditional IRA are subject to ordinary income taxes.
- ☐ **You anticipate taking distributions from your IRA during retirement.** When you reach age 72, you must begin taking minimum distributions. If you plan on withdrawing money during your retirement, this requirement is not likely to impact you.[2]
- ☐ **You will not need to withdraw your IRA money until you reach age 59½.** Early withdrawals from a Traditional IRA before the age of 59½ can be costly — they are generally subject to an additional 10% federal tax in addition to ordinary income taxes. Exceptions from the additional federal tax may be available for college expenses, first-time home purchases and certain other reasons.[1]
- ☐ **You are not eligible to contribute to a Roth IRA because of your income** (see next page). Even if your contributions to a Traditional IRA are not tax deductible (see next page), a Traditional IRA may still be attractive because any earnings on your contribution will not be taxed until distribution.

ROTH IRA

You may want to consider a Roth IRA if...

- ☐ **You and your spouse are eligible to make contributions to a Roth IRA** (see next page). Assuming you meet the income limits, contributions to a Roth IRA are permitted even if you are covered by a retirement plan at work.
- ☐ **You are not eligible to make tax-deductible contributions to a Traditional IRA** *(*see next page). Generally, it makes more sense to contribute to a Roth IRA than to make non-deductible contributions to a Traditional IRA.
- ☐ **Tax-free distributions during retirement are more important than a current tax break.** Roth IRA contributions are never taxdeductible, but distributions in retirement will be tax-free. If you expect your income tax bracket in retirement to be the same as or higher than your current income tax bracket, this Roth IRA feature could be particularly attractive.
- ☐ **You do not want to have to take mandatory distributions.** The required distribution rules do not apply to Roth IRAs, so all your Roth IRA assets can continue to grow on a tax-free basis after you reach age 72 (70½ if you attained that age prior to 2020).

  This can be an attractive feature of a Roth IRA if you anticipate having other sources of income during retirement or if you wish to accumulate assets to leave to an heir on an income tax-free basis.[2]
- ☐ **You would like the flexibility, if necessary, to withdraw contributions before age 59½ without being taxed.** Withdrawals from a Roth IRA up to the amount you have contributed are not subject to federal taxes or penalties. Earnings can be withdrawn tax-free once money has been in the Roth IRA for at least five years and after you have reached age 59½.[1]

[1] Earnings distributed before the end of this five-year period or age 59½, whichever is later, generally are taxable as ordinary income. Distributions from a Roth IRA prior to age 59½ may be tax-free in certain other circumstances, as well. If distributed prior to age 59½, earnings may be subject to a 10% additional federal tax.

[2] In the case of individuals who attained age 70½ on or before December 31, 2019, required minimum distributions must begin by April 1st of the year following the year the individual turned age 70½. The increase in the age at which required minimum distributions must begin was included in the Setting Every Community Up for Retirement Enhancement Act of 2019 ("The SECURE Act"), which was enacted into law in December 2019.

CONTRIBUTIONS &
DEDUCTION LIMITS

For 2019 and 2020 tax years

Single filing status/head of household

<table>
<tr><th colspan="2">Modified adjusted gross income</th><th colspan="2">Traditional IRA
Fixed contribution limit of $6,000 for 2019 and 2020
($7,000 for 2019 and 2020 if age 50 or older)</th><th>Roth IRA variable contribution limit</th></tr>
<tr><td>2019</td><td>2020</td><td>Not participating in employer plan</td><td>Participating in employer plan</td><td></td></tr>
<tr><td>$64,000 or less</td><td>$65,000 or less</td><td rowspan="5">Full deduction</td><td>Full deduction</td><td rowspan="3">Full contribution of $5,500 for 2018 and $6,000 for 2019 ($6,500 for 2018 and $7,000 for 2019 if age 50 or older)</td></tr>
<tr><td>$64,001–$73,999</td><td>$65,001–$74,999</td><td>Partial deduction</td></tr>
<tr><td>$74,000–$121,999</td><td>$75,000–$123,999</td><td rowspan="3">No deduction</td></tr>
<tr><td>$122,000–$136,999</td><td>$124,000–$138,999</td><td>Partial contribution permitted</td></tr>
<tr><td>$137,000 or more</td><td>$139,000 or more</td><td>No contribution permitted</td></tr>
</table>

Married filing jointly/qualifying widow(er)

<table>
<tr><th colspan="2">Modified adjusted gross income</th><th colspan="3">Traditional IRA
Fixed contribution limit of $12,000 for 2019 and 2020
($14,000 for 2019 and 2020 if age 50 or older)</th><th>Roth IRA variable contribution limit</th></tr>
<tr><td>2019</td><td>2020</td><td>Neither spouse participating in employer plan</td><td>IRA contributor not participating/ spouse participating in employer plan</td><td>IRA contributor participating in employer plan</td><td></td></tr>
<tr><td>$103,000 or less</td><td>$104,000 or less</td><td rowspan="5">Full deduction for both IRAs</td><td rowspan="3">Full deduction</td><td>Full deduction</td><td rowspan="3">Full contribution of $11,000 for 2018 and $12,000 for 2019 ($13,000 for 2018 and $14,000 for 2019 if both age 50 or older)</td></tr>
<tr><td>$103,001–$122,999</td><td>$104,00–$123,999</td><td>Partial deduction</td></tr>
<tr><td>$123,000–$192,999</td><td>$124,000–$195,999</td><td rowspan="3">No deduction</td></tr>
<tr><td>$193,000–$202,999</td><td>$196,000–$205,999</td><td>Partial deduction</td><td>Partial contribution permitted</td></tr>
<tr><td>$203,000 or more</td><td>$206,000 or more</td><td>No deduction</td><td>No contribution permitted</td></tr>
</table>

Sources: Internal Revenue Service, Publication 590 (December 21, 2018). www.irs.gov; IR-2018-211 (November 6, 2019); IR-Notice 2019-59.

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This document is intended to provide a general overview of Traditional and Roth IRA plans but does not address all applicable federal tax rules applicable to such plans.

This document does not address state or local tax rules concerning IRAs or other accounts.

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