# Westco Financial News



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**Inside the Issue:**





## HOW ARE YOUR RETIREMENT PLANS GOING?

- Do you already have a retirement plan?
- Are you holding off on creating a retirement plan because you're unsure what you need to do?
- Do you know how much you need to save and where to invest it to retire comfortably?

## QUESTIONS YOU MAY BE ASKING YOURSELF ABOUT RETIREMENT

- Are you worried about saving for your retirement?
- Do you understand the pre-retirement options you have for pension retirement benefits, medical, and when to start social security?
- Are you confused as to the best methods to take retirement distributions and withdrawals?

## SO MANY WORRIES, SO LITTLE PLANNING

Luckily for you, Westco Financial Group is here to help with all your retirement needs.

This quarter, we are focusing on all thing's retirement planning, so there is no better time than now to do an analysis of your own retirement goals.

## THE DETAILS

Call Lori Barrett or Casey Cronin
to schedule your **complimentary RETIREMENT ANALYSIS today!**
Our regular fee of $600 will be waived if you sign up by November 30, 2019.
This evaluation is complimentary for our existing clients.

**CALL TODAY 516-593-5070**

# Traditional VS. Roth IRA
# Which Option is best for you?

Two of the most common retirement questions we get during client meetings are- what is the difference between a Traditional IRA and a Roth IRA (or a Traditional 401(k) versus a Roth 401(k)), and which option is best for me?

### What is the difference between a Traditional IRA and a Roth IRA?

**Similarities:**

The major similarity between a Traditional and Roth IRA is that both are extremely beneficial tools to help you save for your retirement. They both also allow you to contribute $6,000 for the 2019 tax year, and $7,000 if you are 50 years or older, and you (or your spouse) have earned income for that tax year. Lastly, and probably most importantly, they both allow your contributions to grow tax-free, meaning you don't pay taxes on capital gains, dividends, or interest.

**Differences:**

**Income limits**

For a Traditional IRA there is no income limit, meaning that anyone who has earned income in that tax year (or your spouse) can contribute to one.
For a Roth IRA, it gets a little bit trickier since the amount that you can contribute is dependent on your, and your spouses, combined salary. If you are filing single and make $122,000 or less per year, you can contribute the full $6,000, or $7,000 if you are 50 years old or older. If you are filing jointly, you can contribute the full amount if you make a combined $193,000 or less. There are also options to contribute a reduced amount, which are for filing single is a salary of up to $137,000, and married filing jointly is a combined salary of $203,000.

**Age limit**

Traditional IRA's allow you to contribute until you are 70 ½.
There is no age limit to contribute to a Roth IRA, you (or a spouse) must just have earned income for that tax year.



**Age requirement**

With a Traditional IRA, you need to wait until you are 59 ½ before you can start taking money from your account (unless you qualify for an IRS exception), otherwise you will be charged a 10% penalty, on top of your income tax.
A Roth IRA is similar in that you cannot take out your earnings until age 59 1/2 , or face the 10% penalty, but you can withdraw your contributions at any time (as long as you have had the account for 5 years), since you already paid taxes on them.

**Required minimum distributions (RMD's)**

When you turn 70 ½, you need to start taking your RMD each year, which is based on your age and the size of your account, from your Traditional IRA. If you fail to take your RMD for that year, you'll be charged a penalty of 50% of your RMD, which is basically like giving your hard-earned money right back to the government!
Since a Roth IRA is funded with contributions that were already taxed, you are not required to take an RMD.

**Taxes on your contributions**

With a Traditional IRA, you will not pay taxes on your contributions if you fall within the income limits (explained below). This is why you often see the contributions explained as "pre-tax", since you might be able to deduct your contributions when you file your taxes for that year. Which means if you make $30,000 and you contribute $5,000 to your Traditional IRA account, you will only be taxed on $25,000 of income.

Now for income limit breakdown. If you are filing single, have access to a 401(k), and make over $74,000, you cannot deduct your contributions. If you make between $64,000 and $73,999, you can deduct part of your contributions, and if you make under $64,000 you can deduct the full amount of your contributions. If you are filing joint, or don't have access to a 401(k), you will have a different income breakdown, which a qualified tax professional can help explain to you. For a Roth IRA, all contributions are made with "post-tax" dollars, meaning you have already paid taxes on them and will not be able to deduct them from your taxable income.

**Taxes on your withdrawals**

If you qualified for the deduction on your contributions, and paid with "pre-tax" dollars, then you will need to pay income taxes when you withdraw from your Traditional IRA account. So, during your retirement when you withdraw your money, you will have to pay taxes at the income bracket that you fall under then.

If you were not able to deduct your contributions at the time, then you already paid taxes on it and will not have to pay taxes on those dollars again (make sure to keep track of these "post-tax" contributions to let your qualified tax professional know to report them to the IRS so that you are not taxed again). You will, however, be taxed on any gains that you withdraw.

With a Roth IRA, you already paid taxes on your contributions, so you will not have to pay additional taxes when you withdraw your money.

**Now, the BIG question…Which is better for me, a Traditional IRA or a Roth IRA?**

The good news is you cannot go wrong with either a Traditional IRA or Roth IRA, just saving for your retirement is a step in the right direction! Since both have many advantages, your decision on Traditional vs. Roth comes down to -do you think you will be in a higher tax bracket now…or in the future.

If you think you will be in a higher tax bracket when you retire, a Roth might be the way to go for you. An example of this situation would be a young person at the beginning of their career who expects to have their salary grow over the years. If you think that your tax bracket will be lower at retirement, then you might want to choose a Traditional IRA.

However, due to ever changing tax bracket increases set by the government, and the conversation around cutting the tax-free status of withdrawals from Roth IRA's and Roth 401(k)s, your best bet may be to use both types of accounts at the same time. You can split your contributions any way you would like; however, they just can't be more than $6,000 (or $7,000 if you're over 50) in total between the two accounts.



An even better idea would be to consult with a tax professional to understand which account is right for you. Not only does Westco Financial Group have certified financial planners, but they also have professional tax planners. Call us today at 516-593-5070 to schedule your complimentary appointment or email us at clientsvc@westcofinancialgroup.com.

Check out our blog on the website for new info coming weekly:

www.westcofinancialgroup.com

## Traditional Vs. Roth IRA

| | Traditional IRA | Roth IRA |
|---|---|---|
| INCOME LIMITS | None, as long as you (or a spouse) have earned income for the tax year | To contribute the full amount: Filing single= $122,000 or less Filing joint= combined income of $193,000 or less |
| AGE LIMITS | 70 1/2 | No age limit as long as you still have earned income |
| AGE REQUIREMENT FOR PENALTY FREE WITHDRAWLS | 59 1/2 (unless you qualify for an IRS exception) | 59 1/2 (unless you qualify for an IRS exception) & your account has been open for at least 5 years |
| DO I NEED TO TAKE A REQUIRED MINIMUM DISTRIBUTION? | Yes, beginning at 70 1/2. | No, the account owner never has to. |
| TAXES ON CONTRIBUTIONS | No, as long as you are under the income limit for tax deductions. | Yes, you contribute after tax dollars. |
| TAXES ON WITHDRAWLS | Yes for any contributions that you were able to deduct, and all gains. | No, contributions and earnings can be withdrawn tax free. |
| COULD BE RIGHT FOR YOU IF... | You think your income tax bracket will be lower when you retire than it is today. | You think your income tax bracket will be higher when you retire than it is today. |

This information does not take into account the specific objectives, financial situation, or financial needs of any specific person and should only be used for research purposes. Please consult with a qualified retirement planner before making any decisions.

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**We're on the web!**
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# What's Happening at Westco!

Westco Financial Group just finished assisting our clients and friends with Risk Analysis, here's our upcoming agenda…


October – December 2019 Retirement Planning
January – March 2020 Cross Generational Planning
April – June 2020 Investment Management
July – September 2020 Long Term Care
October – December 2020 Tax Planning
January – March 2021 Estate & Trust Planning
April – June 2021 Creating a Comprehensive Financial Plan

Call Lori Barrett (516) 593-5070 to schedule your complimentary RETIREMENT PLANNING ANALYSIS TODAY.

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