

# Could a Roth IRA be Better Than a 401(k)?

Contributed by Terry Mitchell

Very few people whom I know are familiar with the benefits of the Roth IRA. It was named for the late Senator William Roth of Rhode Island, who proposed it. It is similar to a traditional IRA except contributions are never tax-deductible. Contributions to traditional IRAs are sometimes deductible or partially deductible, depending on your income and whether or not you have a retirement plan like a 401(k) at work. With Roth IRAs, individuals are limited to incomes of \$95,000 (\$150,000 for couples) to be eligible for full contribution amounts.

However, unlike the traditional IRA, you can withdraw your contributions from a Roth IRA at any time, at any age without penalty. Earnings are not taxed if you wait until at least age 59 1/2 to begin withdrawing them and have held your Roth IRA for at least five years. With a Roth IRA, the contributions are taxed without any deferral, but they grow tax-free and the gains are never taxed (see above). With a 401(k), contributions are tax-deferred, but eventually the contributions and gains will be taxed. By the time most people retire, the earnings from their retirement accounts will far exceed their contributions, due to compounding. With that in mind, one could make the case for a Roth IRA possibly being better than a 401(k).

Here's an illustration. Let's suppose that over the course of 25 years you contributed a total of \$75,000 to your 401(k) and your employer kicked in \$30,000 during that same period for a total of \$105,000. By the end of those 25 years, your compounded gains (assuming you're getting a decent rate of return) could total \$500,000. When you retire, you will eventually pay taxes on the entire \$605,000 as well as the gains you receive from it after retirement. Now, let's assume that, instead of contributing to your 401(k) for those 25 years, you contributed only \$50,000 to your Roth IRA (without a matching contribution from your employer, of course). The assumption is also that you would not be able to contribute as much because you are using post-tax dollars for the Roth IRA vs. pre-tax dollars for the 401(k). However, because you generally have more investment options with the Roth IRA money than with the 401(k) money, you are likely to find a better rate of return. With that in mind, let's say your compounded gains could total \$400,000. When you retire, you could have the entire \$450,000 as well as the gains you could receive from it post-retirement, completely tax free!

As you can see, it is possible that many people could come out better putting at least a portion of their retirement funds into a Roth IRA. Judge for yourself. I actually contribute more to my Roth IRA than I do to my 401(k). I put just enough into my 401(k) to get my employer's maximum matching contribution, and that's all. However, I'm not a financial advisor and I don't play one on TV, so check with your financial advisor to see what would be right for you. For more information about the Roth IRA, see the following link: <http://www.rothira.com>.

## About The Author

Terry Mitchell is a software engineer, freelance writer, and trivia buff from Hopewell, VA. He also serves as a political columnist for American Daily and operates his own website - <http://www.commenterry.com> - on which he posts commentaries on various subjects such as politics, technology, religion, health and well-being, personal finance, and sports. His commentaries offer a unique point of view that is not often found in mainstream media.

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