

Roth IRA for Young People

Dear Client,

Are you ready to secure your financial future and unlock the power of tax advantages? Whether you choose a Roth IRA or a Traditional IRA, both offer unique benefits that can help you build long-term wealth. However, for young adults, the Roth IRA often takes the lead with unmatched flexibility and tax-free growth potential. The deadline to contribute for 2024 is April 15, 2025, but the earlier you start, the greater your advantage.

Roth IRA: Tax-Free Withdrawals

For each individual tax years, 2024 and 2025, you can contribute up to \$7,000 to a Roth IRA—or \$8,000 if you're 50 or older—as long as you have earned income equal to or greater than the contribution amount.

A Roth IRA offers the significant advantage of tax-free withdrawals, allowing you to access your retirement savings without the burden of taxes eroding your nest egg. Qualified distributions—those made when you are 59½ or older, used for first-time homebuyer expenses (up to \$10,000 lifetime), or in the event of disability or death—are entirely tax-free. Additionally, Roth IRA contributions can be withdrawn at any time without incurring taxes or penalties, providing exceptional flexibility to address financial needs as they arise. These features make the Roth IRA a powerful and tax-efficient tool for securing your financial future.

No Age Restrictions: Unlike traditional IRAs, you can continue contributing to a Roth IRA at any age as long as you're earning income.

Traditional IRA: Immediate Tax Savings

Traditional IRAs also have their place, offering immediate tax deductions that reduce your taxable income today. For 2024 and 2025, you can contribute up to \$7,000 (or \$8,000 if you're 50 or older) if you have earned income. If you're married and filing jointly, you and your spouse can each contribute, provided your combined earned income covers the contributions.

The Traditional IRA offers several key benefits for individuals planning for retirement. One of its primary advantages is tax-deferred growth, allowing your earnings to accumulate without being subject to taxes until you withdraw them during retirement. Additionally, the Traditional IRA provides a potential deductibility advantage, as contributions may be fully or partially deductible based on your income level and participation in employer-sponsored retirement plans. These features make the Traditional IRA a valuable tool for strategic retirement planning.

However, traditional IRAs come with drawbacks, including taxable withdrawals in retirement and a 10% early withdrawal penalty if funds are accessed before age 59½ (unless specific exceptions apply).

Roth IRA vs. Traditional IRA: Long-Term Growth Potential

The power of compounding is a transformative force in building long-term wealth, particularly when paired with tax-advantaged accounts like a Roth IRA. For example, a 22-year-old investing \$2,000 annually can grow their account to approximately \$215,000 at a 5% annual return or \$441,000 at an

8% annual return by age 60. Because Roth IRAs offer tax-free growth and withdrawals, these balances are entirely tax-free in retirement, providing greater financial security. In contrast, while a Traditional IRA offers similar growth, withdrawals are subject to income taxes, potentially reducing the take-home amount. Starting early amplifies the impact of compounding, making the case for young investors to leverage Roth IRAs and lock in decades of tax-free growth for a more stable financial future.

Why Roth IRA for Young Adults

For individuals in lower tax brackets now who expect to be in higher brackets during retirement, the Roth IRA is a standout choice. Contributions are made with after-tax dollars, so you lock in today's tax rates while enjoying tax-free income in the future. The more affluent you aim to become, the better a Roth IRA looks.

Income Limits to Keep in Mind

For 2025, contributions to a Roth IRA phase out for single taxpayers with adjusted gross incomes (AGI) between \$150,000 and \$165,000 (\$146,000 to \$161,000 for 2024). For married couples filing jointly, the range is \$226,000 to \$246,000 (\$218,000 to \$228,000 for 2024). If you're within these ranges, your contribution limit may be reduced, but it's worth maximizing whatever you can contribute.

Whether you choose a Roth IRA for its tax-free growth or a Traditional IRA for its immediate tax savings, the key is to start now. The sooner you contribute, the sooner your money begins working for you—compounding year after year.

If you have questions or want help deciding the best strategy for your situation, don't hesitate to reach out and give us a call.

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