

How do Roth and traditional IRAs differ?

By: Ellis Harman 2/18/2026



Tax-free income in retirement? If you're considering a Roth IRA, here's what to know about a Roth vs. a traditional IRA — including the potential tax benefits.

If you're confused about the differences between a traditional individual retirement account (IRA) and a Roth IRA, you're not alone. Whether you're thinking of opening a retirement account to add to your retirement savings, or rolling over an employer-sponsored qualified retirement plan (QRP) such as a 401(k), 403(b), or governmental 457(b) into an IRA, here are some considerations that may help you avoid making a costly mistake.

So, what are the top pros and cons of Roth IRAs?

Pro: Tax-free income

This is really what sets a Roth IRA apart. The biggest benefit of any IRA is that you're saving for retirement. With a Roth IRA, you're saving money on an after-tax basis, but then it has the potential to grow tax-free, and you can take qualified distributions tax-free. That can be a huge win with tax savings in the future. Since you don't have to pay income taxes on qualified Roth distributions in retirement, you'll have more money for other expenses.

Con: Limits on contributions

You're limited in the amount you can contribute to a Roth IRA each year.

- For the 2025 tax year, the contribution limit is \$7,000 per individual (\$8,000 for those age 50 and older), with a reduced limit kicking in if your annual income is \$150,000 or more (\$236,000 for married couples), and no contributions are allowed if your income is greater than \$165,000 (more than \$246,000 for married couples).
- For the 2026 tax year, the contribution limit is \$7,500 per individual (\$8,600 for those age 50 and older), with a reduced limit kicking in if your annual income is \$153,000 or more (\$242,000 for married

couples), and no contributions are allowed if your income is greater than \$168,000 (more than \$252,000 for married couples).

You won't find these kinds of restrictions on a traditional IRA. With a traditional IRA, you could still contribute if your income is over a certain limit. You just may not get a deduction for it at tax time. Because the maximum contribution for a Roth IRA is relatively low compared to an employer-sponsored account like a 401(k), you should talk to your financial advisor to determine the best mix of options for funding your retirement plan.

Pro: Flexibility when withdrawing contributions

You can withdraw your Roth IRA contributions — that is, the after-tax money that you have contributed, not the gains — at any time without owing taxes. And unlike a traditional IRA, there are no required minimum distributions (RMDs) for a Roth IRA, so you can take distributions however you'd like. Keep in mind, if you put the money in a Roth IRA because you have no intentions of using it, you've paid taxes on money you may never touch. While this may not benefit you during your lifetime, it could benefit whomever you leave that money to, because while beneficiaries who inherit your IRA will have to deplete the account, those distributions will be tax-free.

Con: Waiting period for distribution of earnings

Although you are able to withdraw contributions tax free, you must be age 59 ½ or older and have had the account for at least five years before you can take a tax-free distribution of earnings. Otherwise, you'll likely have to pay a 10% additional tax and taxes on the earnings unless you qualify for an exception.

Pro: You can convert a pre-tax account to a Roth IRA

When you roll funds from a pre-tax retirement account into a Roth IRA (also known as a Roth conversion), you could avoid taxes on future distributions. However, you will need to pay taxes on the funds at the time of the conversion — though you could potentially offset that tax bill with careful planning. You may be able to use losses from special tax situations to offset the income from your IRA conversion in a given year. At the same time, be aware that the conversion could impact your total taxable income for the tax year, which could put you in a different tax bracket. Please consult with your tax advisor on your specific situation before completing a conversion.

One note on conversions: After you do a conversion, it's final. If you do a large conversion and then discover you don't have the funds to pay the taxes or it's no longer a good move for you, you can't unwind it. However, there's no limit to the number of conversions you can do, so you could consider starting with small amounts.

The bottom line

The tax-free distribution aspect of a Roth IRA is appealing, but it shouldn't be your only plan for retirement income. That means it's important to talk with your financial advisor about all your options. You should have a conversation about tax diversification and the type of income you're

planning to have in the future. It doesn't have to be all or nothing — all your money doesn't need to be in a pre-tax account, and all your money doesn't have to be in a Roth IRA.

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Please keep in mind that rolling over your qualified employer sponsored retirement plan (QRP) assets to an IRA is just one option. Each option has advantages and disadvantages, and the one that is best depends on your individual circumstances. You should consider features such as investment options, fees and expenses and services offered. Investing and maintaining assets in an IRA will generally involve higher costs than those associated with a QRP. We recommend you consult with your plan administrator before making any decisions regarding your retirement assets.

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