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I would like a Roth please with lots of lettuce

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Ever noticed how nothing is simple anymore?

You can't order a sandwich without having an option of eight different kinds of bread, five different kinds of cheese, and then there are six different kinds of potato chips to choose from and another ten different drink selections.

What does all of this mean?

"Standard" as we know it is out and "customize" is in.

If it is possible to create over a hundred different sandwiches, then having a customizable retirement plan should be just as convenient.

There are eleven different types of Individual Retirement Accounts, or IRAs.

The two basic types of IRAs are the Traditional IRA and the Roth IRA. What is the difference between the two and which one applies to me?

An IRA is a savings account, which enables a person to set aside money for retirement where the earnings can grow either tax-deferred or tax-free. An IRA is setup with a financial institution (custodian), such as a bank, mutual fund, or brokerage house. When opening an IRA in your name, it may only be a single account. You may not open a joint IRA account.

Not all individuals qualify to make contributions to an IRA. In general with a Roth or Traditional IRA you have to be either self-employed or employed by another party where you are receiving earned income or compensation.

With a Traditional IRA you also have to be under age 70. For 2007, in general, a person may contribute up to $4,000. Further, if you are age 50, or older, you may make an additional contribution known as a "catch up contribution" of $1,000.

You may make a contribution to a Roth IRA regardless of your age. However, you may be limited on the amount of your contribution if your adjusted gross income does not exceed certain limitations.

Unlike a Roth IRA contributions to a Traditional IRA may be tax deductible. These deductions depend on your income filing status, adjusted gross income, and whether you, or your spouse, already contribute to an employer's qualified retirement plan. Not all individuals will qualify to deduct their contributions.

The idea behind a Traditional IRA is that your money is allowed to grow tax-deferred during your pre-retirement years when in general you are subject to a higher tax rate. At retirement, when you begin taking your distributions, they are taxed as ordinary income when typically your income is less and consequently your income tax bracket is lower.

On the other hand, a Roth IRA is funded with after tax dollars, since the contributions you make to a Roth IRA are not tax-deductible. Your money can grow tax-free. There are exceptions to withdrawing money tax-free depending on whether or not your distribution is qualified. Also, no withdrawal other than any already taxed contributions are considered qualified until after a five-year waiting period from the first tax year your initial contribution was made.

You may wonder then why don't all investors choose a Roth over a Traditional IRA?

Again, with the Roth IRA you are taxed during the present and with a Traditional IRA you will be taxed at retirement. The answer is some individuals need the tax deduction from a Traditional IRA. Moreover, depending on your income and how much you are currently taxed, it may be in your best interest to use the Traditional IRA and defer paying the taxes until retirement.

It is also true some individuals don't qualify for a Roth IRA due to income restrictions. However, if you qualify for a Roth IRA and the tax break is not as important to you, a Roth IRA may be the right account for you.

A benefit of a Roth is you do not have to take out a required minimum distribution.

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