THE GREAT IRA DEBATE: ROTH OR TRADITIONAL?

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In 1998, the new year will bring new opportunities, new resolutions and a new retirement savings vehicle you can consider—the Roth IRA. But before you sprint to open one of these new accounts, you may want to compare your IRA choices to see which vehicle best suits your needs.

Amidst their differences, two key similarities remain: (1) you or your spouse must have earned income to make contributions, and (2) the maximum annual contribution. Assuming you qualify, you can contribute up to $2,000 annually for IRA purposes, regardless of whether you invest in a traditional IRA, Roth IRA or a combination of IRAs. Beyond these points, the distinctions between the two IRA types begin:

ELIGIBILITY FOR CONTRIBUTIONS

Traditional: Any eligible participant for the traditional IRA may contribute up to the $2,000 annual maximum contribution.
Roth: Contribution amounts to a Roth IRA are limited if an individual's adjusted gross income (AGI) is between $95,000 to $110,000. Those limits are adjusted to $150,000 to $160,000 for joint returns. If your individual or joint income exceeds these limits, you would not be eligible to contribute to a Roth IRA.

TAX DEDUCTIBILITY

Traditional: Depending on your income level and whether you are covered by an employer-sponsored retirement plan, you may be able to deduct all or part of your annual contributions to a traditional IRA.
Roth: Because contributions to a Roth IRA are made with after-tax money, they are not tax deductible.

TAX-DEFERRED VS. TAX-FREE GROWTH

Traditional: Any interest, dividends or capital gains in your traditional IRA grow tax deferred until you start making withdrawals.
Roth: The Roth IRA's investments grow tax-free as long as you abide by the withdrawals rules.

WITHDRAWALS

Traditional: The traditional IRA allows penalty-free withdrawals after you reach age 59 1/2, and the withdrawals are taxed as ordinary income.
Roth: The Roth IRA allows you to withdraw your original contribution amount at any time (this provision does not apply to account balances

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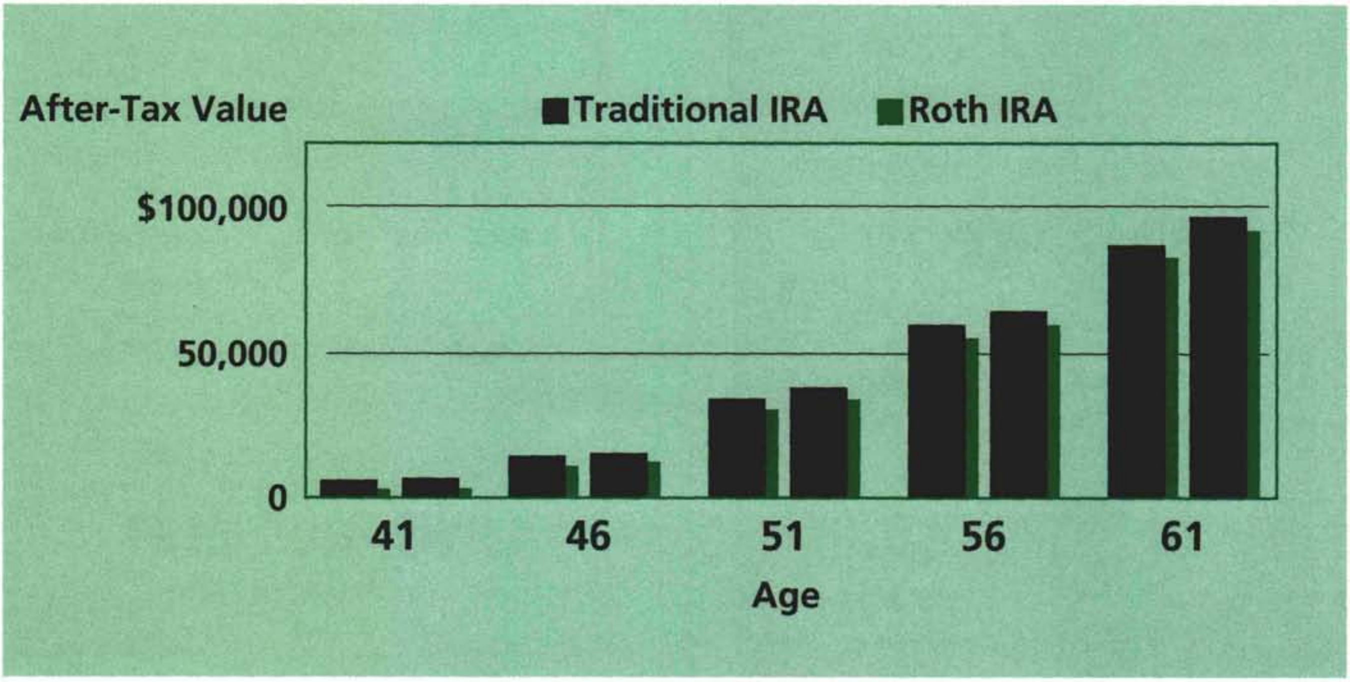

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converted from a traditional IRA to a Roth IRA). In addition, Roth IRA withdrawals after age 59 1/2 are tax-free as long as investments have been in the account for five consecutive years. Remember, any withdrawals made before either IRA's minimum holding period are subject to a 10% IRS penalty and ordinary income tax rates.

A similarity in both IRA types of withdrawal provisions is the "Special Purpose" distribution created under the new tax laws. You are allowed to make penalty-free withdrawals from either IRA type for a first-time home purchase (up to $10,000) and/or qualified higher education expenses, in addition to the existing pre-59 1/2 distribution exceptions.

MANDATORY DISTRIBUTIONS

Traditional: You are required to take minimum withdrawals from a traditional IRA once you reach age 70 1/2.

Roth: There is no requirement to receive minimum payments from your Roth IRA at any time.

If you plan to convert your traditional IRA assets into a Roth IRA, those assets will be subject to ordinary income taxes. These taxes may be spread over the four subsequent years if you convert in 1998. You must also have AGI of less than $100,000 to be eligible.

So, which IRA do you choose? It still depends on your personal needs. Make sure you carefully evaluate each IRA choice to see how it meets your investment objectives, tax consequences and, most importantly, your comfort level.

Which IRA Should You Contribute To?

Rest assured that your traditional IRA will continue to provide an opportunity for tax-deferred growth on assets and provide payout options for beneficiaries (which may allow continued tax-deferred growth potential with minimal immediate taxation). However, both types of IRAs can provide substantial opportunities for growth until retirement. Which IRA you choose to contribute to will depend on the benefit you wish to receive:

- A current tax deduction (if eligible)
- Tax-deferred growth potential
- Tax-free distributions

For example, assume there are two investors who are age 40 and file individual tax returns. One investor contributes $2,000 to a Roth IRA; the other investor contributes the same amount in a traditional account. Both invest in their IRAs over 20 years. Let's assume the investments earn an average rate of return over this time of 8% and both investors are in the 28% marginal tax bracket. As you can see in the chart below, the Roth IRA investor has realized $10,325 more in after-tax value than the after-tax value of assets of the traditional IRA investor. ■

YEAR	AGE	TRADITIONAL IRA	ROTH IRA
1998	41	$2,000	$2,000
2003	46	14,298	14,672
2008	51	31,543	33,292
2013	56	56,237	60,648
2018	61	88,520	98,845