

# Simplified IRA Example (p. 1 of 3)

(ignoring personal exemptions, other deductions, FICA taxes, etc.)  
(assume \$3,000 cash available to invest annually, before tax benefits)

	No <u>IRA</u>	Traditional <u>IRA</u>	Roth <u>IRA</u>
Gross Salary	\$60,000	\$60,000	\$60,000
Taxable Income	\$60,000	\$56,000	\$60,000
Effective Tax Rate (assume)	<u>X 25%</u>	<u>X 25%</u>	<u>X 25%</u>
Tax Liability	\$15,000	\$14,000	\$15,000
After-Tax Cash	\$45,000	\$46,000	\$45,000
Cash Needed for Living Expenses (assume)	<u>\$42,000</u>	<u>\$42,000</u>	<u>\$42,000</u>
Available to Invest	\$3,000	\$4,000	\$3,000

# Simplified IRA Example (p. 2 of 3)

	<u>No IRA</u>	<u>Traditional IRA</u>	<u>Roth IRA</u>
Available to Invest Each Year	\$3,000	\$4,000	\$3,000
Annual Earnings Rate (assume 8% pre-tax)	6%*	8%	8%
Years of Contributions	40 years	40 years	40 years
Growth Factor**	154.7620	259.0565	259.0565
Balance in Account at Retirement***	\$464,286	\$1,036,226	\$777,170

\* 8% pre-tax rate, less 25% tax liability on earnings each year

\*\* See “Future Value of an Ordinary Annuity” Table (Table 3),

[http://highered.mcgraw-hill.com/sites/0072994029/student\\_view0/present\\_and\\_future\\_value\\_tables.html](http://highered.mcgraw-hill.com/sites/0072994029/student_view0/present_and_future_value_tables.html)

\*\*\* Annual contribution (i.e., \$3,000 or \$4,000), times Growth Factor

# Simplified IRA Example (p. 3 of 3)

	No <u>IRA</u>	Traditional <u>IRA</u>	Roth <u>IRA</u>
Balance in Account at Retirement	\$464,286	\$1,036,226	\$777,170
Tax Upon Withdrawal	<u>0</u>	<u>\$259,056*</u>	<u>0</u>
After-Tax Cash Available	<b>\$464,286</b>	<b>\$777,170</b>	<b>\$777,170</b>

\* Assume 25% marginal tax rate (it might be different in retirement)