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Which IRA is Right for *You?*

Learn all about tax-advantaged IRAs and discover the best fit for you.

Introduction

Your options are nearly endless when it comes to how to grow your retirement portfolio. Unlike a traditional savings account, an individual retirement account (IRA) is one of several retirement savings vehicles that provide tax advantages—such as tax-deferred or even tax-free growth—to encourage saving for retirement.

The *superpower* of compounding

The real beauty of saving and investing in a tax-advantaged account like an IRA is the power of compounding interest. While you're making regular contributions to grow your balance, the investments you choose have the potential to earn interest or appreciate in value.

The interest earned on your account balance today is added to your account and reinvested, so the interest you earn tomorrow is based on a higher balance. You're earning interest on your interest in addition to your contributions. Over time, this compounding effect can significantly increase your retirement savings.

Taxable vs tax-deferred vs tax-free scenario:

Tammy is turning 47 this year and wants to supplement her retirement savings. With her budget, she plans to save $450 per month ($6,000 per year) over the next 20 years until she retires at age 67. Tammy expects to remain in the 25% income tax bracket until retirement, when she anticipates her tax rate will decrease to 15%.

To determine what type of account might benefit her most—taxable, tax-deferred, or tax-free—Tammy ran a comparison calculation based on a 7% annual rate of return. After 20 years of contributions, here's how each account performs at age 67, along with the estimated after-tax monthly withdrawals she could receive for 20 years.

Account type	Account balance at age 67	After-tax monthly withdrawals until age 87
Taxable account	$188,519.89	$1,328.27
Tax-deferred Traditional IRA	$229,682.11	$1,488.52
Tax-free Roth IRA	$229,692.11	$1,751.20

Run your own scenario with a customized report: https://www.stratatrust.com/calculators/

IRAs for individuals

Two types of IRAs are designed to help you save for retirement, without the involvement of an employer: a Traditional IRA and a Roth IRA. Both options provide tax-advantaged investment earnings. But the tax benefits and eligibility requirements are quite different for Traditional and Roth IRAs.



Depending on your income and tax status, one type of IRA may be more beneficial now. In future years, your circumstances may change and a different IRA type may be a better fit. Some investors save in both types of IRAs to diversify the tax character of their retirement savings and take advantage of the different benefits each type of IRA has to offer.

Traditional IRAs

Before choosing between Traditional and Roth IRAs, it's important to understand how each type works and what benefits they offer based on your income, tax situation, and long-term retirement goals. The most common IRA is the Traditional IRA. Prior to 2020, contributors had to be younger than age 70½. The Secure Act 2.0, officially signed on December 29, 2022, repealed the contribution eligibility age restriction. Contributions are optional and can vary in both amount and timing from year to year. For 2027, you may contribute up to $7,500. If you are age 50 or over, you may make an additional "catch-up" contribution of $1,100. Contributions to all Traditional and Roth IRAs are aggregated when calculating the annual contribution limit.

Tax deduction

One of the main incentives for making Traditional IRA contributions is the option to take a tax deduction for your contributions. A tax deduction will potentially lower the amount of tax you owe. If you think your tax rate now is higher than it will be when you retire, a Traditional IRA may be a good option for you. By taking a deduction now, you will avoid paying taxes on your retirement savings when your tax rate is high. Instead, you will pay taxes on your savings (contributions and earnings) as you take withdrawals from the IRA, presumably after you have retired and are in a lower tax bracket.

You may take a tax deduction for your IRA contributions unless you (or your spouse) are participating in an employer's retirement plan, such as a 401(k) plan, SEP, or SIMPLE IRA plan. If you are participating in an employer plan, your IRA contribution will be deductible so long as your modified adjusted gross income does not exceed certain limits. These limits are adjusted periodically based on the cost-of-living. If you don't qualify for a deduction, you may make a non-deductible contribution, which will be tax-free when you take it out of the IRA.

Traditional IRA 2027 Income limits for deduction	
Single	Under $83,000
Married	Under $133,000

Savings consolidation

Another key benefit of saving in an IRA is the ability to consolidate your retirement savings into a single tax-advantaged account. You can roll assets into a Traditional IRA from other Traditional IRAs, as well as from 401(k) plans, 403(b) plans, governmental 457(b) plans, and SIMPLE IRAs (after completing the required two-year holding period). Consolidating your savings into one IRA may offer several advantages, including:

- Having only one investment portfolio to manage
- Accessing your retirement funds through a single portal with one set of login credentials
- Potentially reducing overall investment and account management fees
- Simplifying and coordinating your retirement income planning
- Streamlining your financial affairs for beneficiaries if you become unable to manage your investments or pass away before using all your retirement savings

Considerations

Although IRAs allow flexible access to your savings, most withdrawals from a Traditional IRA are included in your taxable income for the year. In addition, a 10% early distribution tax generally applies to taxable withdrawals taken before age 59½. Once you reach age 73, you must begin taking required minimum distributions (RMDs) each year until the account is fully depleted. Tax rules may change annually. Consult IRS.gov or a tax professional for the most current guidance.

Common candidates for Traditional IRAs are individuals who:

- Are eligible to take a tax deduction for their contributions
- Believe they will be in a lower tax bracket in retirement
- Are not eligible to contribute to a Roth IRA
- Want to roll over assets from another retirement account and continue deferring taxation of their retirement savings and investment earnings

Roth IRAs

A Roth IRA differs from a Traditional IRA in several important ways:

- Funded with after-tax contributions (no tax deduction available)
- No mandatory distributions at any age during the account owner's lifetime
- Subject to income limits—you must have

modified adjusted gross income (MAGI) under certain thresholds to be eligible to contribute.

Roth IRA 2027 Roth IRA income eligibility limits	
Single	Under $158,000
Married	Under $250,000

Tax-free distributions

Although Roth IRA contributions do not reduce your taxable income in the year they are made, the primary tax advantage occurs later. You can withdraw your contributions at any time, tax- and penalty-free, because you have already paid tax on those dollars.

Investment earnings in a Roth IRA can also be withdrawn tax-free if the distribution is "qualified." To take a qualified distribution, you must:

1. Have had a Roth IRA for at least five years, and
2. Have a qualifying event: be aged 59½ or older, disabled, deceased, or taking a first-time home buyer distribution.

If you expect to be in a higher tax bracket during retirement—or anticipate significant investment growth—a Roth IRA may be an attractive option.

No mandatory distributions

Roth IRAs are not subject to required minimum distributions (RMDs) at any age during the account owner's lifetime. This allows your Roth IRA assets to continue growing tax-free for as long as you choose. You may also pass Roth IRA assets to your beneficiaries income-tax-free, making Roth IRAs a popular element in long-term retirement and estate planning strategies.

Rollover options

If you have a designated Roth account in a 401(k), 403(b), or 457(b) plan, you may roll those assets over tax-free to a Roth IRA. You may also roll over pre-tax assets from an employer retirement plan or from a Traditional IRA or SIMPLE IRA (after completing the required two-year holding period) into a Roth IRA. This type of rollover is considered a Roth conversion, and the amount converted is included in your taxable income for the year of the conversion. Once the assets are held in the Roth IRA, future qualified distributions may be withdrawn tax-free.

Common candidates for Roth IRAs are individuals who:

- Want to pay tax at today's rates (vs. future unknown rates)
- May need access to tax and penalty-free assets before retirement
- Have significant time to accumulate tax-free investment earnings
- Would like to pass tax-free retirement assets to heirs

Traditional vs. Roth IRA comparison

	Traditional IRA	Roth IRA
Eligibility to contribute	Must have earned income	Earned income within IRS limits
Contribution limit (for 2027)	$7,500 + $1,100 catch-up contribution if age 50+	$7,500 + $1,100 catch-up contribution if age 50+
Contribution taxation	Deductible (if participating in an employer plan, must have income within limits)	Never deductible
Distribution taxation	Taxable, unless nondeductible contributions or after-tax rollovers from employer plans; 10% early distribution tax applies to taxable savings & earnings	Contributions always tax-free, earnings tax-free if qualified distribution; 10% early distribution tax applies only to taxable earnings (non-qualified distributions)
Distribution timing	Withdrawals permitted anytime; RMDs required beginning at age 73	Withdrawals permitted anytime; no RMDs during the owner's lifetime; RMDs apply only after death

You can choose both

The key distinction between Traditional and Roth IRAs is when you receive the tax benefit. Traditional IRAs provide a tax advantage now through deductible contributions, while Roth IRAs offer tax-free withdrawals in retirement.

If you qualify, you can contribute to both types of IRAs. This approach may help diversify the tax status of your IRA savings.

IRAs for business owners

As a business owner, you may sponsor an IRA-based retirement plan to help you and your employees save for retirement. Two of the most common options are the Simplified Employee Pension (SEP) plan and the Savings Incentive Match Plan for Employees (SIMPLE). Employer contributions are tax-deductible, and certain small businesses may also qualify for a tax credit for plan start-up costs.

IRA-based plans are generally easy to administer and are typically less expensive than employer-sponsored plans such as 401(k)s. Additional advantages include:

- No annual plan return (e.g., Form 5500)
- No non-discrimination testing
- No fiduciary risk for investments
- No ERISA bonding requirements

Simplified Employee Pension (SEP) plan

A SEP plan is one of the simplest retirement plan options for self-employed individuals and small business owners. The employer establishes the plan and makes contributions to a separate Traditional IRA for each eligible employee—this includes the business owner.

Employer responsibilities

The administrative requirements for SEP plans are minimal. The employer is responsible for:

- Signing a SEP plan document to establish the plan.
- Choosing employee eligibility requirements and a formula for allocating contributions.
- Depositing contributions into employees' Traditional IRAs.
- Notifying employees when a SEP contribution is made.



Contributions

Employers may choose whether to contribute each year and determine the amount. The annual SEP contribution limit is the lesser of 25% of an employee's compensation or $75,000 (for 2027). Employees cannot make their own SEP contributions; however, they may still make separate Traditional or Roth

IRA contributions if they meet the applicable eligibility rules.

Distributions & taxation

Once SEP contributions are deposited into the IRA, the standard Traditional IRA rules apply—including distribution timing, taxation, and early withdrawal penalty rules.

Savings Incentive Match (SIMPLE) IRA plans

A SIMPLE IRA plan allows small employers to offer a salary deferral retirement plan similar to a 401(k), but with significantly simpler administration. SIMPLE IRA plans are available only to employers with 100 or fewer employees who earned at least $5,000 in the previous year. While contribution limits are lower than those of a 401(k), employer contributions are required.

Employer responsibilities

A SIMPLE IRA plan is established when an employer signs a plan document with a financial institution. At setup, the employer selects eligibility requirements and the employer contribution method. Ongoing responsibilities include:

- Ensuring timely deposit of employee deferrals and employer contributions
- Providing employees with required annual notices
- Maintaining basic plan records

Contributions

A SIMPLE IRA plan allows employee salary deferrals and employer contributions. Eligible employees may defer compensation up to the annual limit, including catch-up contributions for those age 50 or older. Beginning in 2025, employees who turn 60–63 during the year may increase their deferral limit by 50%.

Employees of small employers with 25 or fewer employees may defer an additional 10% above the prior year's limit, while those at employers with 26–100 employees may do so only if the employer provides supplemental contributions. This special 2025 increase also applies to age-50 catch-ups, adding an extra $500 to that year's catch-up limit.

Distributions & taxation

The distribution and taxation rules for SIMPLE IRAs are similar to those for Traditional IRAs, except SIMPLE IRA owners generally must wait for two years from the date of the initial contribution under the plan to consolidate the SIMPLE IRA assets with a Traditional IRA or employer plan. The 10% early distribution tax that applies to taxable distributions prior to age 59½ increases to 25% for the first two years of an employee's participation in the SIMPLE IRA plan.

SEP and SIMPLE IRA plan comparison

	SEP plan	SIMPLE IRA plan
Employer eligibility	Any Employer – best suited for smaller, family-owned businesses or businesses with no employees	Employer that does not maintain another plan – best suited for small businesses with 100 or fewer employees
Maximum employee eligibility requirements	Age 21, employed by the employer for 3 of the last 5 years & compensation of $800 – $375,000 for 2027.	Earned income of at least $5,000 in any prior 2 years & expected to earn at least $5,000 in current year
Contributors to the plan	Employer only	Employee & employer
Contribution limits (for 2027)	Up to 25% of employee compensation, capped at $75,000; employer may vary the contribution each year	Employees can defer up to $17,500 (*19,100 if special 10% increase applies) + $4,000 if age 50 or older ($5,250 if age 60-63); an employer must make up to 3% matching contribution or 2% non-elective contribution Extra 10% deferral – Applies if: 1. Employees of small employers (25 or fewer) or 2. 26-100 if the employer makes supplemental contributions
Distribution taxation	Subject to income taxes & 10% early distribution tax	Subject to income taxes & 10% early distribution tax (25% in first 2 years)
Distribution timing	Withdrawals permitted anytime; RMD rules apply	Withdrawals permitted anytime; RMD rules apply

You can only choose one

Although SEP and SIMPLE IRA plans are straightforward to establish and maintain, each plan offers different features. Employers should evaluate which plan best supports their business structure and retirement goals. Importantly, an employer that maintains a SIMPLE IRA plan cannot offer any other employer-sponsored retirement plan during the same calendar year.

Self-directed IRAs

A self-directed IRA (SDIRA) is a type of IRA (Traditional, Roth, SIMPLE or SEP) that can hold a variety of alternative investments normally prohibited from regular IRAs. The IRA account is held by a custodian, like STRATA, or trustee but it is directly managed by the accountholder—you!

Alternative investment custody

SDIRA custodians aren't allowed to give financial advice (remember, the account is self-directed) - which means the accountholder is responsible for due diligence, managing and directing of their investments. Each custodian's investment offering is different as well as their experience with the custody of alternative investments and their regulatory expertise.

More options, more control

In general, the main difference between an IRA and an SIDRA is what investment options are available to you. Regular IRAs are limited to common securities like stocks, bonds, CDs, and mutual or exchange-traded funds. SDIRAs allow investors a wide array of traditional, non-traditional and alternative investment options outside of the stock market. Leveraging an SDIRA gives you the flexibility to build an investment strategy that may help offset traditional market volatility.

Alternative investments include:


Private equity investments


Hedge funds


Venture capital and angel funds


Precious metals


Real estate syndications


Public LPs and LLCs


Corporate debt or promissory notes


Closely-held stocks


Brokerage accounts for public equities


Other alternative investments

Which IRA is right for you?

While all IRAs offer a tax-advantaged way to save for retirement, each type — Traditional, Roth, SEP, or SIMPLE — offers distinct differences when it comes to taxation, required distributions and payouts, penalty structures and exceptions, age requirements, and more.

Connect with your financial advisor or contact STRATA to learn how an SDIRA can support your investment strategy

What sets STRATA apart

STRATA's strength lies in combining deep industry expertise, regulatory rigor, and a service-first culture to simplify custody for investors and financial professionals alike. Our focus on accessibility, transparency, and technology creates a clear difference in the alternative asset custody space.

Service attributes	STRATA	Competitors
Dedicated onboarding support team	Yes	No
Required minimum cash balance	$0	$300–$500
Investment processing speed	24–48 hours (95% processed within 24 hours)	3–5 days
Service & responsiveness	Responsive service from knowledgeable professionals, with 75% of staff in client-facing roles and average phone wait times <1 minute	Generic call center support, restricted availability, and lengthy queues typically 10+ minutes
Pricing transparency	Straightforward, transparent pricing	Unclear pricing structures
Technology & tools	Streamlined, user-friendly forms with simple navigation and secure online submission via ServiceNOW	Paper-driven workflows that delay and complicate transactions

About us

STRATA Trust Company is a premier national custodian for alternative assets and non-exchange traded investments in self-directed IRAs. STRATA has been serving financial professionals and empowering investors since 2008.

With offices in Waco and Austin, Texas, our team's vast experience in handling the details and complexities that alternative investment transactions require is unrivaled. Our seasoned team's experience in the custody of alternative assets spans over 350 years. With a well-established reputation for honesty and integrity, STRATA is committed to delivering responsive, flexible, and innovative solutions.

At STRATA, we work to ensure that the highest standards for safety and soundness are met. STRATA is a Texas-chartered trust company regulated by the Texas Department of Banking, which has long set the benchmark among state banking regulators. Strict controls are in place to ensure the safety of uninvested cash, and independent auditors are retained to conduct regular audits of our operations.



STRATA TRUST COMPANY

7901 Woodway Drive Waco, TX 76712
866.461.9284 | BusDev@StrataTrust.com | www.StrataTrust.com

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PRWP_308_11_2026