

Pre-tax 401(k) vs Roth After-tax 401(k):



Which is Right for Me?

Pre-tax 401(k) Salary Deferral

- Traditional deferral that has been around for decades
- Funds deferred come out of pay prior to Federal/State income tax
- Deferring \$100 per payroll may only result in a decrease of \$75 - \$80 due to the immediate tax savings
- Actual tax savings depends on your personal tax bracket
- Funds grow on a tax-deferred basis and can eventually roll to an IRA after you retire or terminate your employment
- As you withdraw funds from your IRA, the contributions and investment earnings are taxable to you
- If you take distributions prior to age 59 ½ you may be also be subject to a 10% premature distribution penalty
- If you choose to cash-out of a 401(k) plan after you retire or terminate, your distribution will be taxable in the calendar year that it is taken

Roth After-tax 401(k) Salary Deferral

- This option has been allowed by the IRS for a little over 10 years
- Not all plans offer a Roth after-tax deferral option
- No immediate tax savings. If you defer \$100 per payroll your take-home pay drops by \$100
- The advantage is when you terminate or retire
- You can then roll your Roth 401(k) to a Roth IRA
- Once your money is in a Roth IRA you can take “tax-free” withdrawals of the contributions **and** investment earnings, as long as you are over age 59 ½ and have had the Roth account for 5 years.
- There are some exceptions to these rules

Miscellaneous

- Some participants can't decide if pre-tax or after-tax is better
- They may end up doing some of both or changing from one to the other a few years down the road
- Just remember that any company contributions are being made on a pre-tax basis already

Disclaimer

Please understand that this article is not intended to give you any tax advice or fiduciary guidance. This is just general information that we think you may find useful. Be sure to consult with your financial advisor or tax professional before making any decisions on your 401(k) deferral. Your plan may or may not offer a Roth 401(k) option. Please refer to your benefits administrator or Summary Plan Description to see what your specific options are.