Traditional vs Roth 401(k)

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Taxes are inevitable, but when it comes to your 401(k), you can choose when they happen. Should you invest in a Traditional 401(k) or Roth 401(k)? Well, it depends – do you want to pay taxes now or later?

WEIGHING YOUR OPTIONS

If you expect your **income and tax bracket to be** higher in the future, then contributing to a Roth 401(k) may make the most sense

If you're just starting out in your career, anticipating making much more in the future, or you think your taxes may go up over time, it may be beneficial to **pay the taxes up-front with a Roth 401(k)**

If you **expect to stay at the same or similar income and tax rate**, or think **your income may go down** in retirement, a **traditional 401(k) may be the better choice**

TRADITIONAL 401(K)

- Contributions are made pre-tax
- Taxes are paid on withdrawals
- Money is available penalty-free at age 59½

ROTH 401(K)

- Contributions are made after-tax
- Qualified withdrawals are not taxed
- Money is available penalty-free at age 59½, disability or death and account needs to be open for 5+ years

THE IMPACT ON YOUR PAYCHECK*

Traditional 401(k) contributions are made on a pre-tax basis, and it lowers your current taxable income because you'll be deferring your taxes. However, you do have to pay taxes on your savings and any investment earnings when you withdraw the money at retirement.

Roth 401(k) contributions are made with after-tax dollars. You pay taxes now – at your current tax bracket – on your contribution amount. So, while your paycheck may be less today, this approach could pay off in the future. That's because you won't pay taxes on the balance in your account when you reach retirement age.

Example:	TRADITIONAL 401(K)	ROTH 401(K)
Income:	$50,000	$50,000
Annual Contribution:	$6,000	$6,000
Taxable Income:	$44,000	$50,000
Taxes Due:	$9,680	$11,000
Take-Home Pay:	$34,320	$33,000

HERE'S THE BOTTOM LINE: Whether you opt to save for retirement in a Traditional or Roth 401(k), you should save as much as you can, for as long as you can. With the potential for growth, chances are your retirement account will be worth more in the future than it is today – no matter which option you choose.

* Based on 2021 tax rates for single filers and a 22% tax rate