Is a Roth 401(k) Right for You?

A Decision Guide for Employees

The Standard®

The Roth 401(k) and Your Retirement Plan

Is a Roth Right for You?

When it comes to saving for retirement, the question of whether to defer part of your after-tax dollars to a Roth 401(k) can be a tricky one. And if your plan offers both pre-tax savings and a Roth after-tax option, you'll need to decide if you'll contribute to one or the other — or both.

Before deciding, you'll want to evaluate the tax situation you have now and the one you expect to have in retirement. To put it another way, consider whether you'd prefer to take the tax-free distributions in the future or reduce your tax liability now.

Roth in a Nutshell

- The Roth option, if offered by your plan, is available to any employee who is eligible to contribute to a traditional account, a Roth account or both. Roth contributions are made on an after-tax basis and earnings grow tax-free.
- Qualified distributions are not subject to federal income tax. A distribution is qualified if it has been at least five years since the first contribution and the participant is at least 59½, disabled or deceased.
- A Roth IRA account balance cannot be rolled over to a traditional, pre-tax retirement plan account. However, a Roth 401(k) can be rolled over into another Roth 401(k) or a Roth IRA.
- Roth IRA and regular IRA accounts cannot be rolled over into a Roth 401(k) account.
- If your plan allows employer matching contributions, they must be made on a pre-tax basis, and taxes must be paid on the matching contributions and any earnings on those contributions upon distribution.
- A maximum of $19,500 ($26,000 for participants age 50 and over) in 2021 can be deferred to either a traditional pre-tax account or a Roth account or a combination of both accounts.
- Income restrictions do not apply to the Roth 401(k) as they do to the Roth IRA. For 2021, contributions to Roth IRAs cannot be made by single taxpayers with incomes of $140,000 or more, or by couples filing jointly with incomes of $208,000 or more.

Should You Consider a Roth?

Your personal situation, current tax rate and expectations of your future tax rate should guide your choice. With a Roth, you'll pay income tax on your contributions and enjoy tax-free distributions in retirement. That can make it a good option over a traditional plan if you expect your tax rate to be higher when you retire.

As you use the charts below to help weigh your options, consider whether it makes more sense for you to pay taxes now or later.

Be sure to carefully evaluate your individual tax situation, which may require the assistance of a qualified tax or financial advisor.

Assumption	Strategy	Best Option
Tax rate will be lower in retirement	Pay taxes later	Traditional, pre-tax plan
Tax rate will be higher in retirement	Pay taxes now	Roth plan
Tax rate will be the same	Pay taxes now or later	Both options produce same benefit

Comparing the Options

	Traditional Option (pre-tax)	Roth Option (after tax)
2021 contribution limits	$19,500 (combined with any Roth contribution)	$19,500 (combined with any traditional, pre-tax contribution)
2021 catch-up limit (age 50 or older)	$6,500 (combined with any Roth contribution)	$6,500 (combined with any traditional, pre-tax contribution)
Income limits	None	None
Employer match	May be provided	May be provided
Taxation at distribution	On contributions and earnings	No federal taxes on qualified distributions[1]
Required distributions	Age 72 or retirement, whichever comes later[2]	Age 72 or retirement, whichever comes later

1 A distribution is qualified if it has been at least five years since the first contribution and the participant is at least 59½, disabled or deceased.

2 If the retirement plan account is an IRA or the account owner is a 5 percent owner of the business sponsoring the retirement plan, the required minimum distributions (RMDs) must begin once the account holder is age 72, regardless of whether he or she is retired. If the account is a Roth IRA, there is no RMD.

Roth 401(k) or Traditional?

What's the Difference?

With a traditional 401(k) plan, you usually make salary contributions before taxes are withheld, which decreases the amount of your income that's subject to income taxes. Your earnings are tax-deferred, and you pay taxes when you withdraw the money.

A Roth 401(k) plan has some similarities to its traditional cousin. However, contributions to Roth accounts are made after taxes are paid. After you reach age 59½ and five years have passed since your first Roth contribution, you can withdraw the money you contributed and any investment gains tax-free.

A Roth 401(k) account is subject to the contribution limits of a regular 401(k) account, allowing you to put away thousands of dollars more in retirement savings than you would through a Roth IRA alone.

Who Benefits the Most?

The Roth 401(k) option is not a good fit for everyone. The following types of people may benefit the most from contributing:

Highly compensated employees will appreciate that the Roth IRA's income limits do not apply to the Roth 401(k).

Young employees who are starting to climb the career ladder may find the idea of paying taxes on contributions now at a potentially lower tax rate to be more enticing than making pre-tax contributions to a traditional 401(k) and paying taxes later in their careers when they're likely to be making more money and in a higher tax bracket.

Individuals who foresee higher tax rates in the future may choose to pay taxes today as a hedge against higher taxes tomorrow.

Participants wanting control and flexibility in tax planning for retirement will appreciate being able to both:

- Split contributions between a traditional pre-tax account and a Roth account
- Choose to receive Roth distributions during times of higher taxation

Roth 401(k) Versus Roth IRA

The Roth 401(k) option is advantageous if you are a high-income individual who cannot contribute to a Roth IRA because of the income restrictions.

With a Roth IRA, eligibility to contribute phases out between $125,000 to $140,000 for single filers and between $198,000 to $208,000 for married couples filing jointly. With the Roth 401(k), there are no income limits to prevent you from contributing.

In addition, Roth 401(k) accounts are subject to the contribution limits of traditional 401(k) accounts — $19,500 for 2021 or $26,000 for those 50 or older — allowing you to put away thousands of dollars more in retirement savings than you would through a Roth IRA alone.

Other Important Considerations

Before you decide to contribute to a Roth 401(k), be aware of the following issues:

- Because of taxes, your net (take-home) pay will be less when you make a Roth contribution than when you make a traditional, pre-tax contribution of the same amount. That's because taxes on the Roth contribution are paid before you make the contribution. With a traditional, pre-tax contribution, you pay taxes when you withdraw the money.
- If you expect to be in a lower tax bracket at retirement than at present, you may find the traditional option to be a better choice.
- If you expect to be in a higher tax bracket at retirement than at present, you may find the Roth option to be a better choice.
- Required minimum distribution rules dictate that you must begin making withdrawals from your Roth 401(k) account at age 72 (exceptions may apply). If you want to preserve your assets, you can roll over Roth 401(k) assets into a Roth IRA when you retire. Roth IRAs are not subject to required minimum distribution rules.
- Qualified withdrawals from a Roth 401(k) account are not taxable income, which may help if you are seeking to lower taxes on your Social Security benefits in retirement.
- Roth account balances are included in calculating maximum loan amounts.

Sample Decision Scenarios

To help you with your retirement planning decision, we've included some hypothetical examples to illustrate how individuals may or may not be good candidates for contributing to a Roth 401(k) account. You will need to carefully evaluate your individual tax situation, which may require the assistance of a qualified tax or financial advisor.

Tina

Age: 25

Occupation: Account executive

Her salary: $28,000

Tax bracket: 10 percent

Filing status: Single

Situation

Tina has recently finished graduate school and is confident that her salary will rapidly increase. When she retires, she expects to be in a much higher tax bracket.

Does a Roth 401(k) offer advantages for Tina?

Yes, because Tina expects her income to rise significantly in the future. A Roth 401(k) allows her to pay taxes now and avoid taxes on her distributions later. Her long time horizon until retirement allows her earnings to accumulate and be distributed tax-free.

Andrew

Age: 45

Occupation: Physical therapist

His salary: $85,000

Tax bracket: 25 percent

Filing status: Single

Situation

Andrew currently lives well below his means. Besides maximizing his traditional 401(k) contributions, he has accumulated a significant amount in nonqualified retirement savings. Being single and not owning a home, Andrew desires any tax deduction he can get. When he retires at age 62, he anticipates being in a lower tax bracket than he is now.

Does a Roth 401(k) offer advantages for Andrew?

No. If Andrew expects to be in a lower tax bracket in retirement, there is no advantage for him to make Roth 401(k) contributions. However, if Andrew seeks to lower taxes on his Social Security benefits, he might consider that Roth 401(k) withdrawals would be excluded from taxable income.

Daniel

Age: 51

Occupation: Mechanical engineer

His salary: $115,000

Tax bracket: 22 percent

Filing status: Married filing jointly

Situation

Daniel plans on working many more years and is concerned that his future tax liabilities, coupled with rising taxes, will erode the value of the assets that he and his wife will pass on to their children.

Does a Roth 401(k) offer advantages for Daniel?

Yes. Daniel can pay taxes now when he contributes to a Roth 401(k) and not be taxed later. When he retires, his estate planning strategy may be to avoid the Roth 401(k) minimum required distribution rule at age 72 by rolling his account balance into a Roth IRA.

Mary

Age: 55

Occupation: Accountant

Her salary: $60,000

Tax bracket: 12 percent

Filing status: Married filing jointly

Situation

When Mary retires at age 60, she expects to be in a lower tax bracket than she is currently. She isn't worried that the tax rate will rise significantly.

Does a Roth 401(k) offer advantages for Mary?

It's unlikely. If Mary expects to be in a lower tax bracket because of lower retirement savings income, there is no advantage for her to make Roth 401(k) contributions. However, if Mary seeks to lower taxes on her Social Security benefits, Roth 401(k) withdrawals would be excluded from taxable income.

Employers and plan participants should carefully consider the investment objectives, risks, charges and expenses of the investment options offered under the retirement plan before investing. The prospectuses for the individual mutual funds and each available investment option in the group annuity contain this and other important information. Prospectuses may be obtained by calling 877.805.1127. Please read the prospectus carefully before investing. Investments are subject to market risk and fluctuate in value.

Employers and plan participants should contact their own legal or tax advisors to learn more about the rules that may affect their situations.

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