NestEggs Retirement Plan Services Value by Design

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Roth vs Traditional – Which Option is Right For You?

	ROTH	TRADITIONAL (Pre-Tax)
Taxation on Withdrawals	Withdrawals are tax-free as long as the account has been open at least five years and you are age 59 ½ or older	Withdrawals are subject to state and Federal income tax. An additional IRS penalty tax will apply if you are under 59 ½ years of age
Tax Deductibility	Roth contributions are not tax deductible so you do not get a benefit on your current tax return	Pre-Tax Contributions are deductible for qualified individuals. (Traditional IRA eligibility for tax breaks depends on your income and whether you – or your spouse, if filing jointly – are covered by an employer's retirement plan)
Required Minimum Distributions	Age-based distributions are not required so the account can continue to grow tax-free for decades and can be passed on to your beneficiaries tax free.	You are required to begin taking withdrawals at age 70 ½ (if you do not, penalties will apply)
Age Considerations	If you have earned income, you may make contributions to your Roth 401(k) / IRA after age 70 ½	Individuals age 70 ½ or older may continue to contribute to a 401(k) on a pre-tax basis if still employed. You may not contribute to a pre-tax IRA after attainment of age 70 ½, however.

Big Picture Considerations

Deciding to make Traditional or Roth contributions should depend on whether you expect your income tax rate in retirement to be higher or lower than what you currently pay.

Of course, it's hard to predict what federal and state tax rates will be 10, 20 or even 40 years from now. But you can ask yourself some basic questions to help determine which option best suits your personal circumstances:

- **Which federal tax bracket are you in today?**
- **Do you expect to your income including Social Security to increase or decrease in retirement?**
- **What about tax rates? Do you expect tax rates will be higher or lower when you retire?**

Although conventional wisdom suggests that gross income declines in retirement, taxable income sometimes does not. Think about it. Once the kids are grown and you stop saving for retirement, you lose some valuable tax deductions and tax credits, leaving you with higher taxable income in retirement.

Because of the many variables to consider, more and more individuals are choosing to make both Traditional and Roth contributions to "hedge their bets" given the uncertain long-term tax landscape.

For more information, or to discuss the topic as it relates to your retirement saving objectives, feel free to call NestEggs.

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