

A Taxing Decision: The Difference Between Roth and Traditional

How do you choose between a Traditional 401(k) and a Roth 401(k) account? The biggest difference between them is the way each is taxed. Understanding that difference is the first step to figuring out which account type will put you on a path to a more dignified retirement.



Roth 401(k)

Pay taxes now

- Your contribution is taxed before going into your Roth 401(k) account.
- You will not owe taxes on the money when you withdraw it later.
- Earnings made from your contributions will not be taxed later.
- A Roth 401(k) is a good option if you see yourself in a higher tax bracket later on.

vs.

Traditional 401(k)

Pay taxes later

- The money you contribute to your 401(k) is not taxed beforehand.
- You'll pay taxes when you withdraw the money.
- Earnings made from your contributions will also be taxed later.
- A Traditional 401(k) is a good option if you see yourself in a lower tax bracket later on.

Why It Matters

You have to pay taxes on your income, so the ideal time to pay them is when you owe the least. Ask yourself:

What do you expect overall income tax rates to be when you retire?



If income tax rates are higher when you retire but your income is the same, you may save money by contributing to a Roth 401(k).

Do you expect your personal income tax bracket to be higher or lower at retirement?



If income tax rates stay the same but your income is lower in retirement, you may save money by contributing to a Traditional 401(k).

How old are you, and how long do you plan to be invested in the market?



Younger employees will likely see their wages and tax bracket go up over time. Older employees may want to wait until retirement for the taxes to hit.



Talk with your Retirement Counselor about your options.

There are many things to consider when choosing between a Roth and Traditional 401(k), like your age and changing life circumstances. Fisher Investments Retirement Counselors can help you understand how each option will impact you and make you more comfortable when making a decision.

Call Fisher Service: 888-322-7586
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Contact us for more information about the options available through your employer.

