Advisor Connect | To Roth or Not to Roth

MAKING IT ACTIONABLE

Saving for retirement typically means contributing money on a pre-tax basis today and then paying taxes on the accumulated balance when you withdraw it in the future.

A Roth 401(k) flips the script with after-tax contributions and tax-free withdrawals.

There are many reasons for employees to consider contributing to a Roth 401(k) and advantages to employers who offer them. **To Roth or not to Roth?** That question can be complicated. But we'll help you answer it by dissecting five key aspects of including a Roth option in a 401(k) plan, so you can provide clients a clear path forward.

1 | **Start the conversation by explaining similarities and differences:**
While Roth IRAs have been around since 1997, the Roth 401(k) didn't debut until 2006. With a Roth IRA, eligibility to make contributions begins to phase out for those with an adjusted gross income of more than $117,000 for single tax filers and $193,000 if filing jointly. Individuals also have to contend with annual contribution limits of just $6,000, or $7,000 for those age 50 or over. However, for those in a company-sponsored 401(k) plan with a Roth option, these income limits don't apply and the annual contribution limit jumps to $19,000, and increases to $25,000 for those age 50 or over.

2 | **Explain how younger workers can benefit:**
A Roth 401(k) is often a good option for younger workers because they can contribute after-tax dollars to their retirement accounts before their incomes and tax brackets rise later in their careers.

3 | **Explain how older workers can benefit:**
Older workers whose tax brackets may not dip in retirement, can sometimes benefit from a Roth 401(k). That's because contributions and earnings can be withdrawn tax-free once the account has been held for five years and the account owner is age 59 ½ or older.

4 **How high earners can benefit:**
Unlike many workers whose tax brackets drop in retirement, high earners may experience the reverse because of deferred compensation or the sale of their business, and therefore shouldn’t rule out a Roth 401(k).

5 **Don’t gloss over the extra effort:**
In addition to learning the ins-and-outs of Roth 401(k) accounts, you may have to put in a little extra time to explain the pros and cons to plan sponsors and to plan participants. The upside is they’ll likely appreciate your effort and expertise.

Knowing which clients and prospects are ready to have the Roth 401(k) discussion will help you strengthen your relationships and potentially your business. Contact us to get started.