

Choosing Wisely:

Pre-Tax or Roth Contributions

Deciding between pre-tax and Roth contributions to your retirement plan depends on factors like your current income, expected retirement income, and future tax rate outlook. Both offer valuable retirement savings opportunities but differ in tax treatment.

TRADITIONAL PRE-TAX CONTRIBUTION

A pre-tax contribution, often referred to as a traditional deferral, allows you to contribute money directly from your paycheck before taxes are deducted. With pre-tax contributions, you can lower your taxable income now, which may place you in a lower tax bracket and reduce your current tax bill. However, when you start withdrawing funds from your pre-tax contributions after age 59½ in retirement, those distributions will be taxed as ordinary income. This option can be particularly advantageous if you expect to be in a lower tax bracket during retirement than your current tax bracket. In this case, you would pay less tax on your retirement withdrawals than you saved on your contributions.

SUMMARY

- Contributions made **before taxes are withheld**.
- Withdrawals **taxed as income** in retirement.

ROTH CONTRIBUTION

On the other hand, Roth contributions take a different approach. Contributions are made with after-tax dollars, meaning you pay taxes on your income now, but withdrawals after age 59½ are tax- and penalty-free*, assuming you meet certain conditions. Roth contributions significantly benefit those who anticipate being in a higher tax bracket in retirement or those expecting tax rates to rise in the future—effectively locking in your current tax rate on contributions made today. The Roth contributions may benefit younger workers who expect their income (and possibly tax rates) to increase over time or those who prefer the certainty of tax-free income in retirement.

SUMMARY

- Contributions made **after taxes are withheld**.
- **Withdrawals are tax-free** (if conditions are met.)*

KEY CONSIDERATIONS WHEN CHOOSING

Ultimately, choosing between pre-tax and Roth contributions depends on your financial situation and long-term outlook. Some investors hedge their bets by contributing to both types of accounts to diversify their tax advantages if their employer's plan allows it. Consulting with a financial advisor can provide personalized insight and help you make the best decision based on your goals, income, and expectations for the future.



For more information about the contribution types, refer to [Pre-tax Contributions](#) and [Roth FAQs](#).

Learn more

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*Certain conditions must be met to withdraw contributions and earnings tax- and penalty-free—for example, you must be at least 59½ years old, and it has been at least five years since the first Roth contribution, or you are disabled.

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