

PRETAX OR ROTH: WHICH PATH IS RIGHT FOR ME?



Saving for retirement can give you the kind of life you want in your golden years, but it also has an added benefit – it can help you save money on your taxes. Traditional retirement plan contributions are made on a pretax basis, which allow you to reduce your current taxable income. Income taxes on plan contributions and investment earnings are deferred until later.

Your retirement plan may also allow Roth contributions, which are made on an after-tax basis. Roth contributions provide tax-free investment earnings for qualified withdrawals, allowing you to build up assets that can be withdrawn entirely tax-free.

If Roth contributions are available in your plan, you will be able to choose pretax contributions, Roth contributions, or a combination of the two. Assets will be recordkept separately in your account. Here is a quick breakdown of both options:

	Pretax Retirement Plan Contributions	Roth Retirement Plan Contributions
Contributions	Before tax	After tax
Investment earnings	Tax-deferred	Tax-free
Withdrawals	Taxable at ordinary income tax rates	Tax-free
Qualified withdrawal requirements	Must be at least age 59½	Must be at least age 59½ 5 years since first Roth contribution
Tax penalty for nonqualified withdrawals	10% income tax penalty on entire withdrawal	Income taxes assessed plus 10% tax penalty (on investment earnings only)

HOW SHOULD I CHOOSE BETWEEN PRETAX AND ROTH?

Depending on your current circumstances, either pretax or Roth contributions may be more advantageous from a tax perspective. Here are a few things to consider when choosing between the two (and remember, you can also choose a combination of both):

Consider Pretax if:

- Your tax rate will be lower in retirement
- You will have a relatively high income this year
- You are approaching retirement
- The 5-year waiting period for Roth withdrawals is problematic
- You want to lessen the impact of saving on your tax-home pay

Consider Roth if:

- Your tax rate will be higher in retirement
- You will have a relatively low income this year
- You are near the beginning of your career
- You are able to wait more than 5 years to take withdrawals
- You want your beneficiaries to inherit your assets tax-free

Still not sure which option is right for you? Reach out to a BerganKDV advisor today for guidance at no cost to you.

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