



Should I Save “Roth” or “Pre-tax” for Retirement?

The debate between Roth and pre-tax savings is extremely important and has a potentially large impact upon all individuals saving for the future. Saving “Roth” means that any money contributed to the Roth IRA or Roth 401(k)/403(b) is taxed in the current tax year and is invested so that it can then grow tax free. This money can then be withdrawn tax free by the account owner in the future. Alternatively, pre-tax accounts such as Traditional IRAs and 401(k)/403(b) plans allow the account owner to receive an income tax deduction in the current tax year and defer taxes until withdrawals are made in the future. Every dollar withdrawn, whether money that was originally contributed or growth upon this money, will be taxed upon withdraw.

Factors in Favor of Roth Contributions:

- Not having to worry about future tax increases or your tax rates in retirement.
- Wanting to avoid taking Required Minimum Distributions (RMDs) beginning at age 72.
- Desiring tax free withdraws during retirement.
- Having the ability to take large withdrawals without increasing retirement tax rate.
- Desiring to leave an inheritance that will be free from income tax.

A good “rule of thumb” is to save “Roth” if your current marginal tax bracket 24% or lower.

Factors in Favor of Pre-tax Contributions:

- Expecting your tax rate to drop significantly during retirement.
- Desiring to decrease your tax liability in select years when contributing.
- Anticipating that heirs will likely be in a lower tax bracket.
- For those who are disciplined, the tax savings realized from making pre-tax contributions can be invested as well.
- For those charitably inclined, Traditional IRA’s give the capability to complete Qualified Charitable Distributions (QCDs) after the owner is age 70.5.

A good “rule of thumb” is to save “pre-tax” if your current marginal tax bracket 32% or higher.

These guidelines do not apply to everyone and may need to be altered based on current age, future sources of income, estimated future tax rates, financial status of heirs, desire for future withdraw flexibility, etc.

For further reading, [here](#) is a link to an excellent article which provides several different Roth vs. Pre-tax scenarios. Additionally, Michael Kitces, a leader in the financial planning industry, [shared an article](#) which discusses four key factors to consider when deciding between Roth and Pre-tax savings.