# Roth IRAs Vs. Roth 401(k)s

*Presented by Christa Canavan*

According to an adage, it's better to tax the seed than the crop. And if you're comparing traditional retirement accounts with Roth retirement accounts, that expression does seem to ring true. With traditional retirement accounts, the contributions (i.e., the seeds) are tax deductible, reducing your income tax burden today. These contributions continue to grow tax free until you need to access your account; that's when you incur taxes on a much larger crop.

Roth retirement accounts, on the other hand, offer no up-front tax benefits, but withdrawals from Roth accounts are tax free. Although traditional retirement accounts are intended to help you defer taxes until retirement, Roth accounts are designed to help you escape future taxes. Unlike traditional retirement plans, there is no requirement to withdraw money from a Roth account before you want to.

**Is a Roth Right for You?**

If you anticipate that your marginal tax bracket will be substantially lower during your retirement, years of tax deferral through a traditional retirement account may offset your future tax bill. On the other hand, if you expect tax rates to rise in the future, you may be wise to consider putting some funds into a Roth account, giving yourself more options for tax savings.

Not everyone is eligible to contribute to a Roth retirement account. As an individual saver, you may be subject to earned income limits. But Roth retirement accounts available through your employer's 401(k) or 403(b) plans aren't subject to these limits, and you can generally contribute more to them than to an individual Roth IRA.

The kind of Roth account that you choose should depend on several factors:

- **Your contributions.** There is a combined cap on how much you can contribute to Roth 401(k) and traditional 401(k) accounts. Contributions to one will affect the other, but you are never ineligible because your salary is too high. Plus, the cap is several times higher than that on individual Roth IRAs. With an individual Roth IRA, you may not be eligible to make contributions in a year when your income is over the limit. If you are under the limit, you can contribute both to a Roth 401(k) and an individual Roth IRA.
- **Employer contributions.** To encourage participation in company retirement plans, many employers match all or a percentage of employee contributions to their Roth 401(k)s. For instance, if your employer offers a 50 percent match on anything you contribute, up to 5 percent of your salary, you will automatically see an increase in your account. Even if your employer match is subject to a vesting schedule, you should aim to contribute enough to maximize the match.
- **Choice of investments.** Often, employer-sponsored Roth 401(k)s offer access to investment managers not available to individual investors and without the sales charges that one might incur when investing in an individual Roth IRA. Your employer, however, may limit your investment choices. If the available options won't help you reach your retirement goals, you may want to supplement your portfolio with nonqualified and individual Roth IRA savings.
- **Level of expenses.** Although most employer-sponsored Roth 401(k) plans are low cost, don't assume there are no expenses. HR departments don't always supply up-to-date materials on the available plans, so don't rely solely on company literature to research choices. Your investment advisor has access to tools that can give you an accurate picture of your plan's options and help you make a better decision. Getting a handle on expenses for individual IRAs is easier. Between fee-based brokerage accounts, low-cost or no-load mutual funds, and other possibilities, you have a wide variety from which to choose.
- **Accessing your account.** Both employer and individual Roth accounts are meant to be left untouched until retirement; however, you may take a withdrawal from a Roth IRA at any time. Withdrawals from Roth 401(k)s, like those from traditional 401(k)s, are subject to restrictions while you are working for your employer. But some plans have hardship provisions and others permit loans up to certain limits.

So who benefits from a Roth 401(k)? Younger employees who have a longer retirement horizon will have more time to accumulate tax-free earnings in a Roth 401(k) account. And some high-salaried employees will appreciate having both tax-deferred and tax-free money to fund retirement. Employees who want their retirement accounts to pass income tax free to their heirs may also be attracted to a Roth 401(k).

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**Christa Canavan, ChFC, Registered Investment Advisor**

Norton Financial Consultants

165 Main Street, Suite 206-A | Medway, MA 02053

508.429.7000 | 508.429.7409 fax | www.nortonfinancial.com | christa@nortonfinancial.com