Roth 401(k) – Key Factors to Consider

When you are thinking about Roth 401(k) contributions, you need to consider the following:

Roth 401(k) contributions may be right for you if the statements below are true:	Pre-Tax 401(k) Contributions may be right for you if the statements below are true:
Taxes	
❑ I expect that my total retirement income and earnings from other investments will place me in a higher tax bracket during retirement. (Higher than I will experience during my working years.)	❑ I expect that my total retirement income, plus Social Security will place me in a lower tax bracket in retirement. (Lower than I will experience during my working years.)
❑ If I contribute on an after-tax basis (Roth), I will still be able to contribute the same level of savings to the Plan as before, even though I will pay more payroll tax currently.	❑ If I were to contribute to the Plan on an after-tax basis (Roth), I would need to reduce my percentage of contributions because I need my after-tax paycheck to be the same during this time period.
Flexibility	
❑ I expect to have enough income and accumulate enough retirement assets to allow me to meet my income needs using varying sources.	❑ I expect to need to draw my retirement income from all possible sources in order to meet my expected standard of living requirements.
❑ I expect to be able to withdraw my accumulated Roth contributions later in life, allowing them to continue to enjoy tax-free growth during my early years of retirement.	❑ I will likely need to withdraw and use my retirement savings when I first retire and throughout my retirement years.
❑ I will have other sources of retirement income to draw from during retirement, including my personal savings and/or savings and income from my spouse or partner.	❑ Aside from some possible inheritance, I expect that my income for retirement will come mostly from my retirement plan.
❑ If I work part time or otherwise during my retirement, it is because I wish to stay busy.	❑ I expect that I may need to delay retirement or continue to work during retirement in order to supplement my income.
❑ I plan to draw benefits from a pension plan at retirement.	❑ I expect that a substantial portion of my income after retirement will come from Social Security.
Uncertainty	
❑ I am in an entry-level position and/or I expect career and pay advancement.	❑ I will have stable employment with cost of living increases over my career.
❑ I expect to pay off my residence by retirement age.	❑ I will likely still have a mortgage or rent expenses after I retire.
❑ I hope to have a better lifestyle (more income) during retirement than during my working years.	❑ Saving while working is difficult for me and my spouse or partner.

Note: Your dominant responses to the left or right will help you understand if making Roth contributions is right for you. If you are “in between” these two sets of personal traits, you may wish to diversify your plan contributions, splitting your contributions between “pre-tax” and “Roth/after-tax”, such as 50% to each, or 3% of compensation saved to each source, for example.

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