2025 · SHOULD I CONTRIBUTE TO MY ROTH 401(K)?

Enriched Advice

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Do you expect your future effective tax rates to be the same or higher than the current rates?

- Yes
- No → **Consider making a traditional 401(k) contribution.**

Consider making a traditional 401(k) contribution. → You will receive the tax deduction now, at the higher rates. In the future, eligible distributions will be taxed when you are presumably subject to a lower rate of tax.

→ Contributions to your traditional 401(k) will reduce your AGI, and can help you to qualify for credits and avoid surtaxes/surcharges.

Are you eligible to contribute to a Roth IRA?

- Yes
- No → **Consider making a Roth 401(k) contribution. Unlike a Roth IRA, a Roth 401(k) has no income-based eligibility restrictions.**

Consider making a Roth 401(k) contribution. Unlike a Roth IRA, a Roth 401(k) has no income-based eligibility restrictions. → You will pay tax now, at the lower rates. In the future, qualified distributions will be tax-free, when you are presumably subject to a higher rate of tax.

Prior to turning age 59.5, could you need to withdraw the contribution?

- Yes → **Consider a Roth IRA because you can withdraw the contributions at any time (tax and penalty-free). Roth 401(k) withdrawals must be permitted by the plan and also qualified, otherwise, distributions are made pro rata, subject to tax on earnings and possible penalties.**
- No

You will pay tax now, at the lower rates. In the future, qualified distributions will be tax-free, when you are presumably subject to a higher rate of tax. → Employer matching contributions may either be pre-tax (taxed upon distribution) or Roth (taxed as income upon receipt). Employer matching Roth contributions must be non-forfeitable (i.e., fully vested).

→ Due to changes made by the SECURE Act 2.0, Roth 401(k)s are no longer be subject to RMDs (starting in 2024).

Consider making a Roth 401(k) contribution because you can save up to $23,500 per year ($31,000 if age 50 or over).

Can you save more than $7,000 per year ($8,000 if age 50 or over)?

- Yes
- No → **Consider making a Roth 401(k) contribution to obtain any employer match (pre-tax or Roth); otherwise, a Roth IRA is generally the more flexible account.**

Do you want to save more than $23,500 per year ($31,000 if age 50 or over)?

- Yes → **You could make non-deductible contributions to a traditional IRA and then convert to a Roth IRA, or to your 401(k) and then make an in-plan Roth rollover or conversion, or an in-service distribution to your Roth IRA (if permitted).**
- No → No additional planning considerations.

You could make non-deductible contributions to a traditional IRA and then convert to a Roth IRA, or to your 401(k) and then make an in-plan Roth rollover or conversion, or an in-service distribution to your Roth IRA (if permitted). → Reference the "Can I Make A Backdoor Roth IRA Contribution?" flowchart and your plan documents to see if you are eligible.

No additional planning considerations.