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ROTH IN REVIEW

ROTH BASICS

Elective deferral contributions to a traditional retirement plan are contributed on a pre-tax basis and help lower your current taxable income. Roth elective deferral contributions, however, are much like a Roth IRA in that contributions are made on an after-tax basis. Money in the Roth deferral source and any earnings will be distributed tax-free if withdrawn after age 59½, death, disability, and at the end of the five-year taxable period during which the participant's deferral is first deposited into the Roth account through their employer's retirement savings plan (a.k.a. the Five-Year Rule). A Roth 401(k) account (or similar plan such as a 403(b), 457(b), or other) can be rolled over to another plan that permits Roth contributions or to a Roth IRA. If rolled into a Roth IRA, the tax-free nature remains and the money is not subject to the minimum distribution requirement at age 72 as in the Roth 401(k).

WHO WOULD LIKELY BENEFIT?

- * People who believe taxes will be greater in the future
- * Young investors who believe they will be in a higher tax bracket in the future
- * Investors who do not qualify for the Roth IRA due to income limit
- * Low income investors who are tax-exempt
- * Investors who use Roth deferrals as a planning tool in conjunction with traditional retirement plans
- * Allows participants to hedge against risk of higher future tax rates

WHO WOULD LIKELY NOT BENEFIT?

- * People certain that future tax rates will decrease
- * People expecting to experience a significant drop in income upon retirement
- * People with high temporary income
- * People needing access to their funds within the first five years of deferrals

	Traditional deferrals	Roth deferrals
Tax treatment of deferrals	Before tax	After tax
Tax treatment of earnings	Tax deferred	Tax-free
Tax treatment of final distributions	Taxable at ordinary income tax rates	Tax-free
2021 402(g) Salary Deferral Limits	*\$19,500 (*Traditional + Roth)	*\$19,500 (*Traditional + Roth)
2021 Catch-up Limit	*\$6,500 (*Traditional + Roth)	*\$6,500 (*Traditional + Roth)
Distribution Restrictions	Subject to Plan rules, qualified distribution	Subject to Plan rules, qualified distribution and Roth account must be open for five tax years

In summary, Roth retirement plan contributions have potential to allow individuals more flexibility in saving for retirement, whereby giving investors more control over the taxable alternatives. MCF recommends a cautious approach when weighing the pros and cons.

Unsure if your employer offers a Roth deferral feature? Contact your HR or MCF Advisors for assistance in reviewing your retirement plan highlights and alternatives such as a Roth IRA.

IMPORTANT DISCLOSURE INFORMATION

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