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hnighbert@mcfadvisors.com
859.967.0990

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 similar to 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 Money in the Roth deferral source and any earnings will be distributed tax-free if withdrawn after age 59½, death, disability, and at the end of the five-year taxable period during which the participant's deferral is first deposited into the Roth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 within your employer's retirement plan (a.k.a. the Five-Year Rule). Roth deferrals in a retirement account 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 73 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 401(k) plans

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 deferring

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	Traditional 401k	Roth 401k
Tax treatment of deferrals	Before tax	After tax
Tax treatment of investment earnings	Tax deferred	Tax-Free
Tax treatment of final distributions	Taxable at ordinary income tax rates	Tax-Free
2024 402(g) Salary Deferral Limits	\$23,000 (Traditional + Roth)	\$23,000 (Traditional + Roth)
2024 Catch-up Limit	\$7,500 (Traditional + Roth)	\$7,500 (Traditional + Roth)
Distribution Restrictions	Subject to 401(k) rules, qualified distribution	Subject to 401(k) rules, qualified distribution and Roth deferals must be open five tax years.

In summary, Roth retirement plan contributions have the 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. Not sure if Roth is right for you? Schedule a complimentary meeting with your dedicated MCF Financial Advisor to review your personal situation.

IMPORTANT DISCLOSURE INFORMATION

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