



T.RowePrice

Roth contributions

T. Rowe Price



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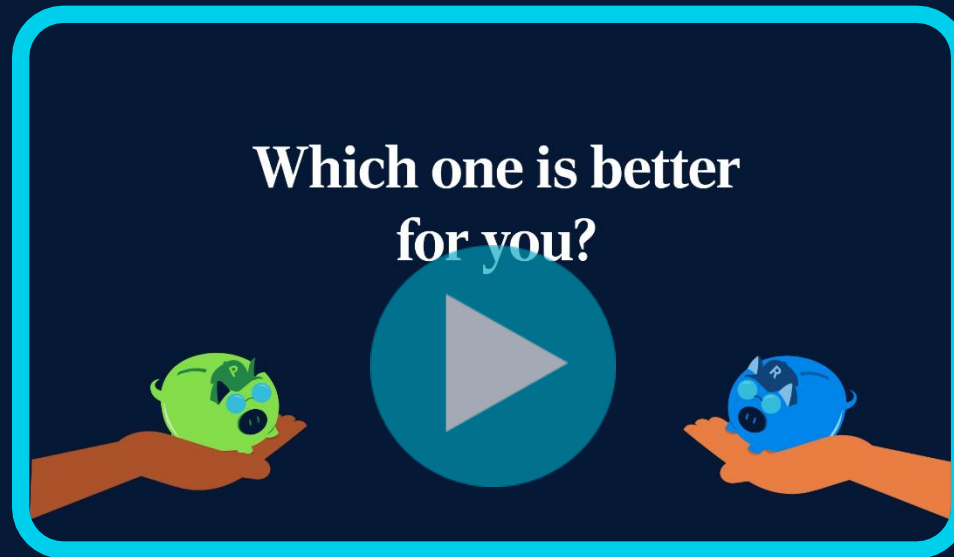
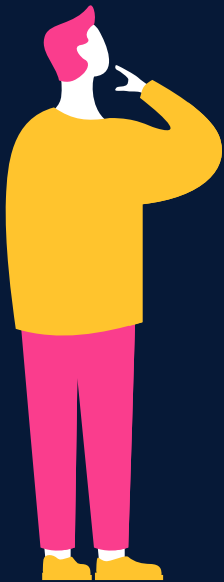
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Agenda

- Roth defined
- Important information to consider when determining if Roth is right for you
- Tools and resources
- Q&A

What words come to mind when you think of Roth accounts?

TAXES



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Roth defined

Roth is a type of retirement account in which you contribute after-tax dollars.
There are two types of Roth accounts:



**Workplace
Retirement
Account**

IRA

Roth account comparison

Workplace Retirement Account

Investor: Employee

Eligibility: Plan participant

Contributions: Payroll deduction

Maximum 2025: \$23,500 + \$7,500 catch-up (age 50+; aggregate limit with pretax contributions)

Investments: Employee selects from options in plan

- ✓ Tax-advantaged retirement savings account
- ✓ Account growth is tax-deferred
- ✓ Catch-up contributions above the age of 50
- ✓ No RMDs required

IRA

Investor: Individual

Eligibility: Subject to income limits

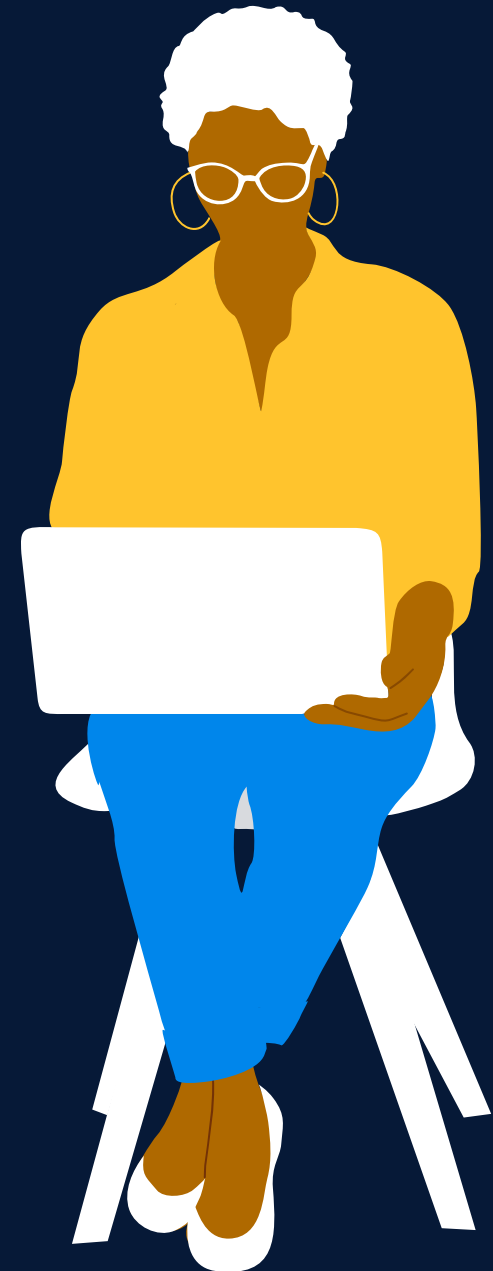
Contributions: Direct to financial institution

Maximum 2025: \$7,000 + \$1,000 catch-up (age 50+; aggregate limit with Traditional IRA contributions)

Investments: Individual selects from financial institution

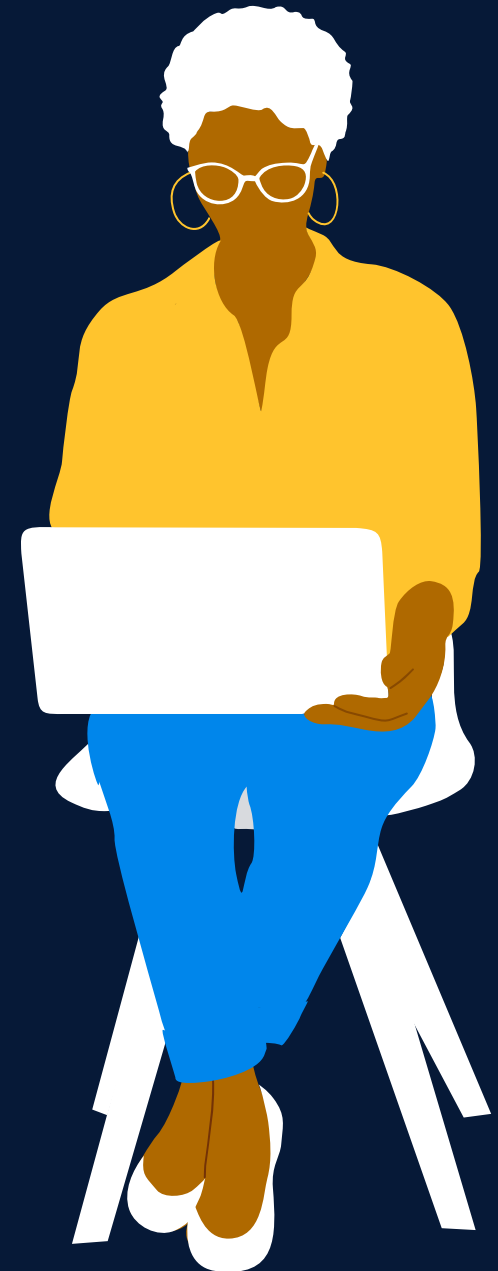
Roth advantages

- **Qualified distributions** are tax-free
- **No RMDs required** for you; but they are required for your beneficiaries
- A Roth 401(k) can help with **tax diversification** and hedge against higher tax rates
- Tax-free withdrawals may:
 - Limit the portion of Social Security income subject to federal income tax
 - Reduce income-related surcharges in Medicare premiums
 - Limit income in high tax brackets



Roth considerations

- **No immediate tax break.**
- **You must take a qualified distribution** in order to receive the tax benefits.
- **Contributions are taxed at your state's rate.**
If you retire to a state with a lower rate—or no income tax—you'll end up paying more in state taxes than you would have with pretax contributions.





Contributions

← Pretax

Lowers current taxable
income

Roth →

Won't reduce taxable
income today



How will this affect my paycheck?

Assumptions

- Gross weekly pay: \$1,000
- Contribution rate: 5%
- Tax rate: 28%*

	Traditional Pretax	Roth
Gross weekly pay	\$ 1,000	\$ 1,000
Less pretax contribution	\$ (50)	
Taxable amount of pay	\$ 950	\$ 1,000
Less tax	\$ (266)	\$ (280)
Less Roth contribution		\$ (50)
Net weekly pay after income taxes	\$ 684	\$ 670

*For illustrative purposes only. The tax rate represents estimated federal and state taxes. Your results will vary.



Accumulate

Earnings grow **tax-deferred** for
both contribution types





Withdraw

Pretax

You pay taxes on contributions and earnings

Roth

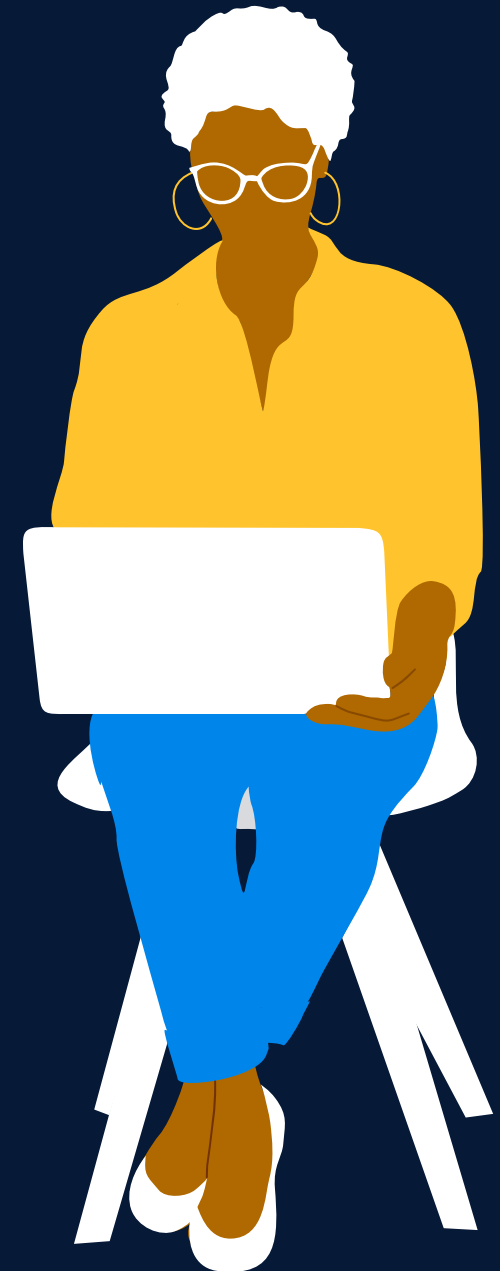
No taxes on contributions; earnings are tax-free with qualified distribution*

* A qualified distribution is tax-free if taken at least 5 years after the year of your first Roth contribution AND you've reached age 59½, become totally disabled, or died. If your distribution is not qualified, any earnings from the Roth portion will be taxable in the year it is distributed. These rules apply to Roth distributions only from employer-sponsored plans. Additional plan distribution rules apply.

Qualified distributions

- Five years must pass between your first contribution to a Roth account and withdrawal of earnings.
- If fewer than five years have passed, the withdrawal is considered a nonqualified distribution and may be subject to partial taxes or a 10% penalty.*
- If the five-year rule is met and you're 59½ or older, you can take a qualified distribution that is free of both taxes and penalties.

*There are exceptions to the 10% penalty. Consult a tax professional.



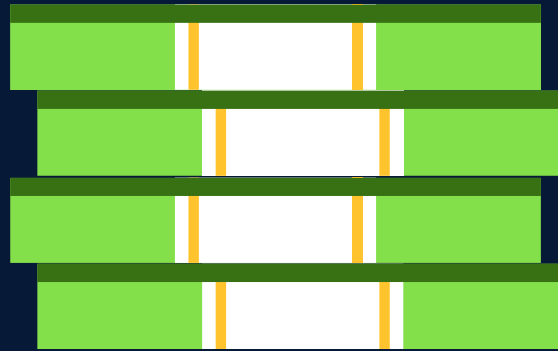
The five-year rule

- Meet the requirements in one Roth IRA and they apply to all
- The years count when rolling over an old Roth 401(k) to a new Roth 401(k)
- Each Roth 401(k) plan has its own separate five-year clock
- Roth 401(k) and Roth IRA are separate when it comes to qualified withdrawals
- The earliest contribution to any Roth IRA counts when rolling over a Roth 401(k) to a Roth IRA

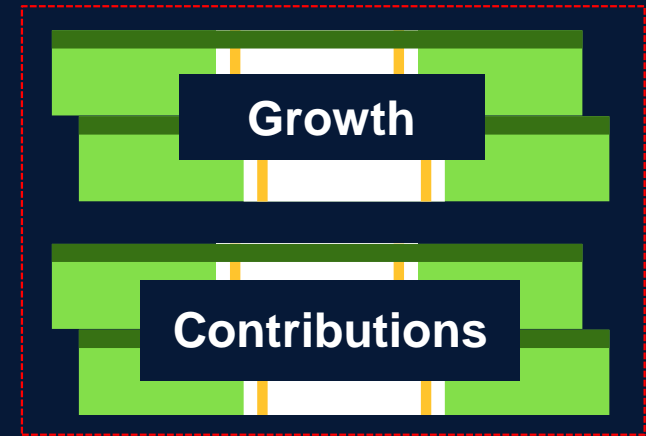
Example of taking a **qualified** distribution



Your Roth
contributions
\$5k



The account
grows to
\$10k

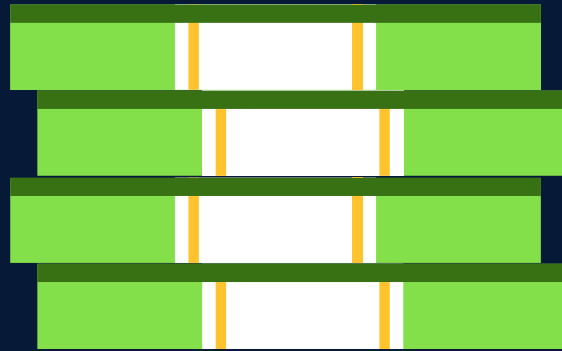


You take a **qualified
distribution**, and the
full amount is **tax-free**
\$10k

Example of taking a **nonqualified** distribution



Your Roth
contributions
\$5k



The account
grows to
\$10k




You take a
nonqualified
distribution and **pay**
taxes on the growth
\$5k

Tax overview



	Pretax	Roth	Employer*
Will you pay taxes on your contributions before they go into your account?			
Will you owe tax on your original contribution when you withdraw?			
Will you owe tax on any earnings/growth when you withdraw?			

*If plan offers Roth employer contributions & participant elects to participate in this feature, this will change tax consequences.
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Tools and resources



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ToolsABC COMPANY RETIREMENT SAVINGS PLAN

ROTH COMPARISON CALCULATOR

Explore your options.

To help you determine if before tax or Roth plan contributions are better for your situation, you should consider whether to take your retirement savings tax advantage now or later. Roth plan contributions are made with after-tax dollars, or money you have already paid taxes on. Unlike traditional before-tax contributions that provide a tax break today, Roth plan contributions can provide a tax break in retirement.

Contribution Information

Annual Salary

\$95,000

Retirement Age

65

Contribution Amount

6%

\$%

Paycheck Frequency

Twice A Month

Tax Considerations ⓘ

Tax Rate (before retirement)

24.0%

Tax Rate (during retirement)

22.0%

Show Results

Assumptions

Impact on You Now

Roth plan contributions are made after tax. If before-tax contributions are made to your plan, you get a tax break now and keep more of your money in your paycheck today. That extra money could be saved and invested.

	ROTH	BEFORE TAX
Contributions to your plan	\$238	\$238
Impact on your paycheck	-\$238	-\$180
Extra money to save	\$0	\$57

Impact on Your Annual Spendable Income

(in first year of retirement)

For most savers, qualified distributions from the Roth Contribution source in a retirement plan may provide more spendable income than traditional before tax savings. Even if you add the extra savings, Roth may still provide more spendable income.

Understanding your results

\$4,702

\$3,667

\$4,653

Roth

Before tax

Before-tax and extra savings

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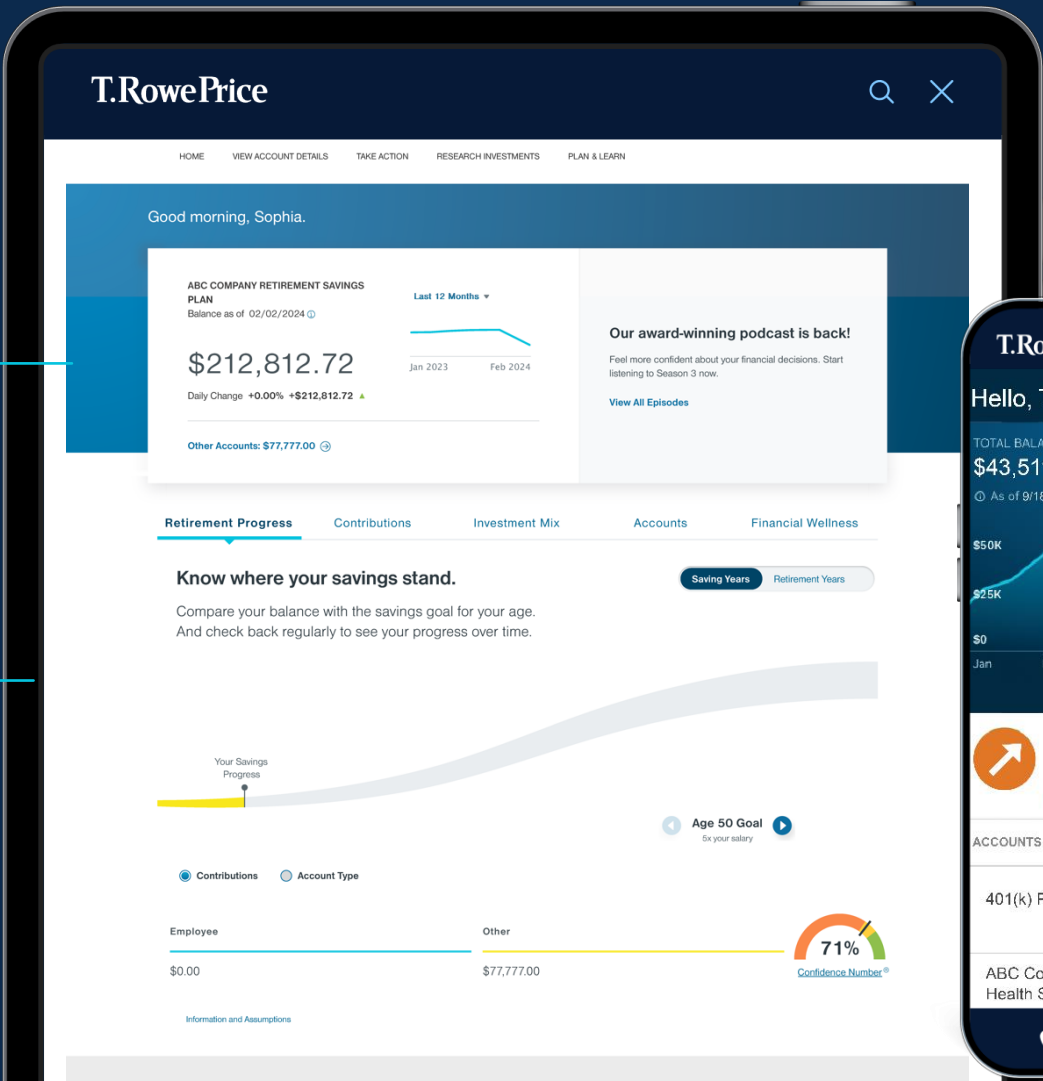
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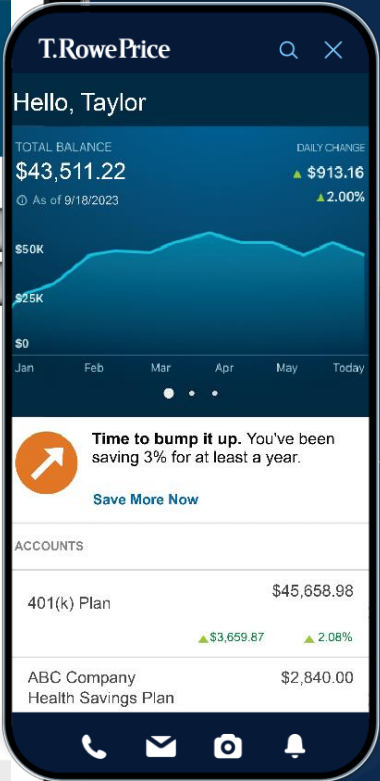
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