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The top things to consider when deciding between Roth and traditional accounts

Make Your Plan

Key Insights

- Roth and traditional retirement accounts are taxed differently.
- Which account you choose should be based on your current and future marginal tax rates.
- Choosing the right account can help you avoid paying excess taxes.

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When you're working and saving for retirement, you typically have a choice between traditional and Roth retirement accounts, including individual retirement accounts (IRAs) and 401(k)s. But how do you choose which account to open? Taxes are a primary factor to consider. Since you don't want to pay more in taxes than necessary, you should choose carefully.

The tax treatment of Roth and traditional accounts varies considerably. That's because the way you put money into these accounts and how you take it out later is very different:

- Traditional retirement accounts are generally funded with money on a pretax basis, meaning it comes straight out of your paycheck before you pay any taxes on it. This reduces your taxable income and essentially gives you an income tax break for the same year. However, that tax break comes with strings attached. When it's time to start taking money out of those accounts, you're going to have to pay taxes on every dollar you withdraw.
- Roth accounts, on the other hand, are funded with money that you've already paid taxes on. So contributing to a Roth account doesn't reduce your taxes today. However, qualified distributions are tax-free. (Generally, a distribution is qualified if taken at least five years after the tax year of your first Roth contribution and after you've reached age 59½.)

Working individuals who meet [IRS income limitations] can contribute to a Roth IRA or make pretax contributions to a Traditional IRA. And increasingly, retirement plans like 401(k)s allow designated Roth contributions in addition to pretax contributions. So more people are going to have a choice to make. In the chart on the next page (titled "Roth

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or Traditional?"), you will find some of the factors to help guide your decision.

Consider your current and future tax rates

The main thing you'll want to consider when choosing between Roth and traditional accounts is whether your tax rate will be higher or lower during retirement than your marginal rate is now. If you think your tax rate will be higher, paying taxes now with Roth contributions makes sense. If your tax rate is likely to be lower in retirement, you can use traditional contributions to defer taxes instead.

Federal tax rates are scheduled to revert to pre-2018 levels after 2025, although the new Republican administration will likely seek to delay or rescind that provision. If the reversion of tax rates remains law—sooner or later—that may make Roth contributions more attractive in the year(s) with lower rates. In addition, investors who expect to leave a legacy may want to consider the tax impact on their beneficiaries.

Roth or Traditional?

Consider which account type may be most beneficial given several hypothetical investor scenarios.

Profile	Income	Tax bracket	Situation[1]	Likely benefits from
A young person in a low tax bracket who is likely to be in a higher bracket later	$55,000	12% (single)	The next-highest tax bracket is 22%.	Roth
Someone who already has large traditional retirement account balances and wants to minimize required minimum distributions (RMDs) in retirement	$160,000	22% (married)	Approaching retirement with a $3.2 million 401(k) balance. An RMD (around $181,000 at age 83) plus Social Security is more than the spending need and could bump the household into the 24% tax bracket.	Roth
A prodigious saver who can afford to contribute the IRS maximum either way	$150,000	24% (single)	Uncertain outlook for future tax rate. Can comfortably save $23,500 in a 401(k). After-tax savings are effectively $5,640 higher per year with Roth contributions.	Roth
A person in peak earning years who could have a lower tax rate during retirement	$450,000	32% (married)	Currently near the bottom of tax bracket. The next lower tax bracket is 24%.	Traditional
Someone with a tight cash flow who wants the company 401(k) match while maximizing paychecks	$30,000	12% (single)	Contributes 6% to a 401(k) to get the full company match. Pretax savings provide $216 per year more net pay.	Traditional

[1] Brackets are for federal taxes, based on rates as of January 1, 2025. While rates are scheduled to revert to pre-2018 levels after 2025, those rates are not shown in this table. Income refers to gross earnings; the current bracket reflects the standard deduction and potential retirement contributions. State taxes are not considered in the examples. Married status reflects joint filing. RMD estimate in the second row assumes the account balance remains the same until age 83.

Of course, tax rates are hard to predict due to changes in the law as well as uncertainty around your future income levels.

When a Roth may be right for you

Here are three situations where a Roth probably makes the most sense:

1. **You are currently in a lower tax bracket, but you expect that to change.** Let's say you are a young professional who is anticipating salary increases, which will put you in a higher tax bracket down the road. Contributing to a Roth IRA or Roth 401(k) means you pay the relatively low rate on taxable income now. Once you've retired, you will not pay any taxes on qualified distributions from the plan.

2. **You are close to retirement and are concerned about required minimum distributions (RMDs).** If you've been a disciplined saver and have contributed a healthy percentage of your income to traditional accounts for many years, eventually you've got to pay the piper. Generally, you must take your first RMD from Traditional IRAs and 401(k)s by April 1 after the year you turn 73. As the name suggests, these withdrawals are required, even if you don't need the income at the time.

   RMDs could bump you to a higher tax bracket. Qualified distributions from a Roth 401(k) or Roth IRA, on the other hand, would not create taxable income or increase your tax rate. Therefore, a Roth contribution may be preferable to limit the RMD income taxed at a higher rate.

   Someone in this position may also want to consider the effect on their beneficiaries. The SECURE Act, passed in 2019, requires most non-spouse beneficiaries to withdraw all retirement account balances within 10 calendar years. This change increases the likelihood that traditional account withdrawals will push them into a higher tax bracket, which makes Roth assets even more attractive.

3. **You are a prodigious saver.** Suppose you can contribute the maximum amount to a retirement plan ($23,500 for 2025, $31,000 if you're over age 50, or $34,750 if you're age 60–63), even if you don't get a tax break. In this case, the Roth account effectively enables you to save more in a tax-advantaged manner. Saving the maximum amount ultimately results in more after-tax retirement assets for the Roth account balance than a traditional contribution that is pretax.

When traditional could be the way to go

While a Roth is a good choice for many people, it's not best for everyone. Here are two examples where pretax contributions, such as to a traditional 401(k) or a Traditional IRA, may be a better strategy:

1. **You are in your peak earning years.** When you retire, you might eliminate expenses, such as mortgage payments or college costs. Additionally, withholdings for payroll taxes and retirement contributions will go away. As a result, your income from Social Security and the amount you need to draw from retirement accounts likely will be less than what you earn today. So your federal tax bracket could be lower in retirement. Your state tax rate also could decrease, for example, if you move to an income tax-free state.

   In this case, taking the tax benefit now with a traditional contribution may make more sense than the Roth contribution. You'll reduce your current taxable income while paying a higher tax rate and then make withdrawals at a potentially lower tax rate later in retirement.

2. **You are struggling to save.** The traditional pretax approach may enable you to get your employer's full 401(k) match with less impact on your take-home pay. This is because taxable income is reduced by the amount of your contribution.

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Having trouble deciding?

If you're still unsure of what to do in your situation, the tiebreaker often should be in the Roth account's favor.

That's because:

- Roth accounts generally are better for heirs, since assets usually will be withdrawn tax-free.
- If, like many people, you have more assets in traditional accounts than in Roth accounts, adding to your Roth assets improves tax diversification. This hedges against the risk of changes in tax laws or your personal circumstances.
- Roth IRA contributions (but not necessarily the gains) can always be withdrawn at any time or at any age without tax or penalty. But be careful—it's not as flexible for Roth 401(k) assets or assets that were converted from a Traditional IRA to a Roth IRA.

While you should devote more energy to making sure you're saving enough, a thoughtful decision between Roth and traditional contributions can help you take full advantage of those savings.

The most frequently asked questions

Choosing between a Roth and traditional account can be challenging. Below we've answered some of the most common questions we hear from individual investors.

What are the income limits for Roth IRAs?

If your modified adjusted gross income (MAGI) is higher than the amount set by the IRS, you may not contribute to a Roth IRA. The most common income limits are those for married people filing jointly with a MAGI of $246,000 or more (in 2025) or those who are single, head of household, or married and filing separately with a MAGI of $165,000 or more.

How do Roth IRA phase-out ranges work?

It's not all or nothing when it comes to IRA contribution limits. If your MAGI falls within the "phase-out" range, you may still be eligible to make some contributions to your Roth IRA depending on where your MAGI falls within that range. For example, if you're married and have a MAGI of $242,000 in 2025, that falls within the $236,000–$246,000 phase-out range, so you can contribute up to 60% of the limit. That would mean a maximum contribution of $4,200 if you're under the age of 50.

Should you split contributions between a Roth and traditional account?

Splitting contributions between a Roth and traditional account can allow you to get some tax benefit today while hedging somewhat against higher tax rates in the future. For example, if you expect your taxable income to be close to a tax bracket boundary, you could make enough traditional contributions to stay in the lower bracket, then take advantage of Roth contributions. Or you could split the contributions if it is very unclear whether your rates will be higher or lower in the future.

Is pretax/traditional or after-tax/ Roth better for a young person?

Both types of retirement accounts can be valuable savings vehicles for younger investors. However, a Roth account may be more advantageous for a young person who is likely to make more money as they age, which would push them into a higher tax bracket later in life and in retirement.

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