

Why Roth contributions may be the best way to save in your plan.



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Should you take your retirement savings tax advantage now—or later, when you retire? For many people, the answer is later, when every dollar counts.

Why giving up a tax advantage now might make sense later

Traditionally, the amounts you contribute to your workplace retirement plan are considered before-tax salary deferrals. That means your contributions are excluded from your annual taxable income. However, when you withdraw before-tax money, plus any earnings, it's treated as taxable income.

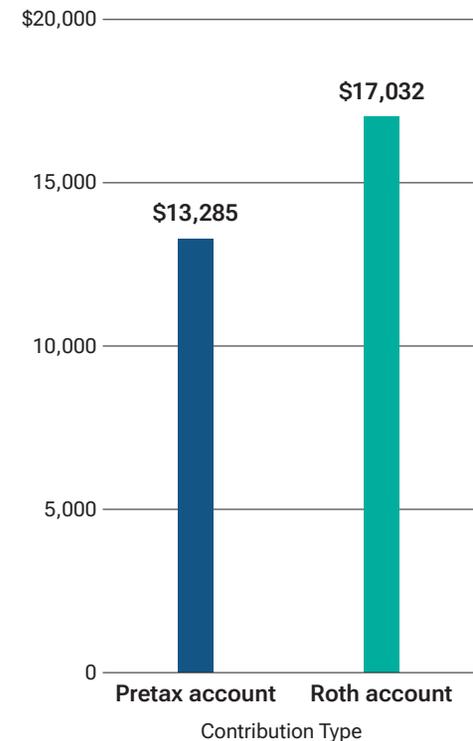
By contrast, Roth contributions are considered after-tax salary deferrals. The amount you save annually is not excluded from your current taxable income. But after age 59½, you'll pay no tax on both your Roth contributions and their earnings when you take a qualified distribution.¹

Why this matters

The objective of any retirement strategy should be to maximize spendable income after you stop working. For most savers, qualified distributions from the Roth contribution source in a retirement plan will provide more retirement income than traditional before-tax savings.

A Roth account can also give you greater spending flexibility. If you need to make a large withdrawal, you'll pay no tax on the money you take from the Roth contribution source of your retirement account. And you won't risk being pushed into a higher tax bracket because the withdrawal isn't considered taxable income.

Estimate of spendable income in the first year of retirement



This chart assumes a participant is age 65 and withdraws 4% of a total account balance of \$425,794 in the first year of retirement. The \$425,794 account balance was calculated based on the following assumptions: The participant started saving at age 45, earned \$80,000 a year, received a 3% raise each year, contributed 10% of pay annually to a retirement account, and had a 7% annual rate of return net of fees. The amount shown for the pretax account spendable income reflects estimated federal and state taxes of 22%. For illustrative purposes only. This is not meant to represent the performance of any investment options for your plan. The assumptions used may vary from those in similar charts or calculators. Your results will vary. All investments involve risk, including possible loss of principal.

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Consider Roth contributions if:

- You're under age 50 *or*
- You're over 50, but you expect your tax rate in retirement to remain the same or to drop by a moderate amount

Consider before-tax contributions if:

- You're 50 or older *and*
- You expect your tax rate to be considerably lower in retirement

Two big ideas:

Are you saving? If you're not enrolled in your workplace retirement plan, sign up now.

Are you saving enough? Increase your savings rate regularly to build your savings faster.

What you can do now

Choose the option that works best for you. Log in to your account at rps.troweprice.com and check out the Roth Comparison Calculator to help with your decision.

*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.

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