

# TRADITIONAL K VS ROTH K?

## TIME FOR ANOTHER LOOK

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# The Basics of Traditional K vs Roth K

- Similarities
  - Contribution limits
  - Required minimum distributions
  - Distribution limitations
  - Tax free accumulation vehicle
- Differences
  - Pre-tax contributions vs after-tax contributions
  - Tax-free distributions vs taxable distributions



# The Basics of Roth K vs Roth IRAs

- Contributions are after tax and distributions are generally not taxable
- Differences of Roth K and Roth IRAs
  - Contribution limits
  - Roth IRAs have earning limitations
  - Roth IRAs have no RMD requirements
  - If distributions are taxable, the amount of taxable income is calculated differently

# Understanding What is a Qualified Distribution

- Generally distributions from Roth Ks are non-taxable if:
  - The participant has reached age 59 ½, died or became disabled, and
  - The participant has held the account for more than 5 years.



## A Useful Tool: The Roth In-Plan Rollover

- Allows for the conversion of non-Roth accounts to a Roth account in a 401(k) plan
- Plan document must allow it
- Allows participants in years when they are in a “low tax bracket” to pay tax on the amount they want to convert
- Available for traditional K accounts, profit sharing accounts, matching accounts, rollover accounts and the earnings on those accounts

## Which is the Better Option?

- Why select the traditional K?
  - More dollars can be saved
  - Pay tax at a lower rate, if tax rates are going to fall
  - Pay tax at a lower rate, if post retirement income will fall
  - The availability of in-plan rollovers provide flexibility on when to pay the tax

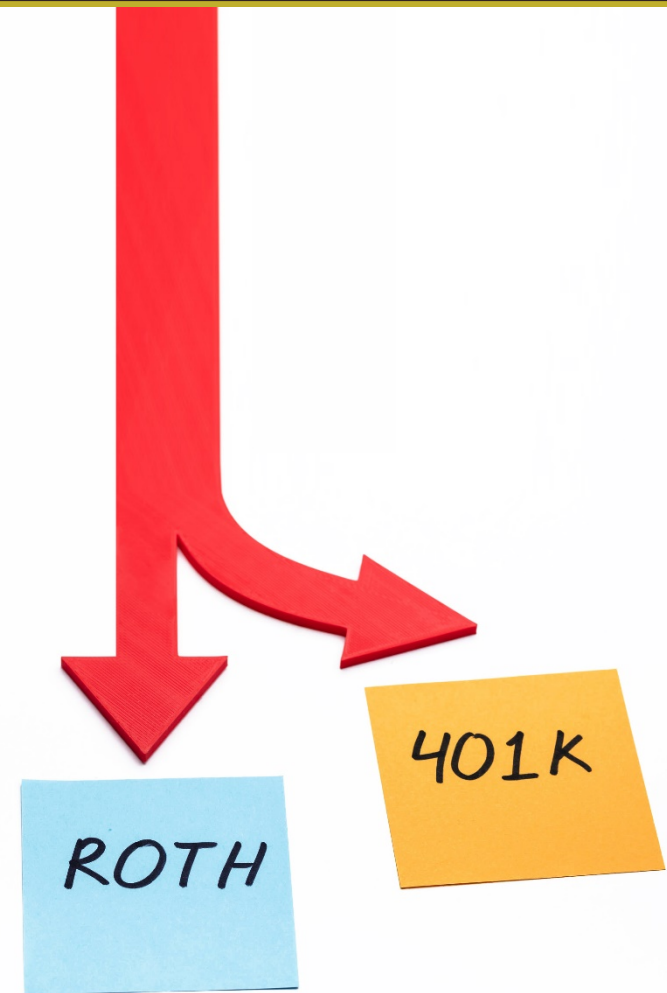


## Which is the Better Option?

- Why select Roth K?
  - Pay no tax on distributions if tax rates are going to increase
  - Pay no tax on distributions if post retirement income will be greater than current income
  - Roth K accounts can be rolled to Roth IRAs and not be subject to the RMD rules
  - Provides a great death benefit, because the beneficiary receives it tax free

# Which is the Better Option?

- Why select both Traditional and Roth?
  - No crystal ball needed
  - Allows the account holder to “hedge their bets” on future rates and future income levels





# Implications of the Election

- What's going to happen to future tax rates
- The Trump administration has advocated for the "rothification" of 401(k) plans
- Biden has advocated equalizing tax benefits by utilizing a uniform tax credit for all taxpayers

