Pick Your Plan

Pre-Tax or Roth After-Tax

Pre-tax or Roth after-tax — which contributions are right for you? Your employer's retirement plan lets you save both ways. Read on to learn more. Then, consult your tax adviser and check out the tools on **MillimanBenefits.com**.

What Are the Different Tax Advantages?

Pre-tax and Roth after-tax accounts offer different tax advantages.

- **Pre-tax contributions** are deducted from your paycheck **before** income taxes are withheld, so you lower your taxes every pay period. You pay taxes on these contributions and earnings later when you withdraw them from your employer's plan.
- **Roth after-tax contributions** are deducted from your paycheck **after** income taxes are withheld. So you're paying your taxes up front. At retirement, qualified distributions, including any growth in the account, come out tax free.

MILLIMAN HAS AN APP FOR THAT

Stay up to date with your retirement savings plan. Download the Milliman Mobile Benefits app from the App Store or Google Play.

What's a Qualified Distribution?

A qualified distribution means:

- You have your Roth after-tax account open for at least 5 years, **and**
- You take your distribution after age 59½ or due to death or disability.

How Much Can You Save?

If you're under age 50, you can save up to the 2021 IRS limit of $19,500 — it's a combined limit for pre-tax and Roth after-tax contributions. If you'll be age 50 or older in 2021, you can make additional catch-up contributions of up to $6,500.

How Do You Decide?

It's up to you to decide which kind of 401(k) contributions will work best for you. Here are a few things to consider.

Pre-tax contributions may make sense if you:

- Need a current-year tax break
- Expect to be in a lower tax bracket during retirement
- Would be forced to save less if you didn't get the tax savings on pre-tax contributions

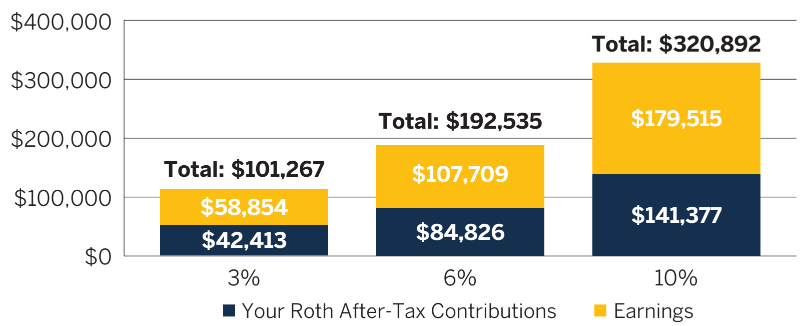
Roth after-tax contributions may make sense if you:

- Are in a low tax bracket and don't mind paying taxes up front
- Hope to avoid taxes on Social Security (unlike pre-tax contributions, distribution income for Roth after-tax contributions is not included in the Social Security taxation calculation)
- Are a high earner and not eligible to make Roth Individual Retirement Account (IRA) contributions
- Want to pass on some of your account to your heirs (qualified distributions from an inherited Roth after-tax account won't be subject to income tax)

Remember, you can choose to split your contributions between both pre-tax and Roth contributions, and you can change your future contributions from year to year.

Roth After-Tax Contributions in Action: An Example*

This example shows how Roth after-tax contributions can grow over time. With a qualified distribution, the entire amount makes it to your pocket; you pay no taxes on the earnings. That's the beauty of Roth after-tax contributions. The yellow portion of the bar represents the earnings on your Roth after-tax account. As you can see, over time those earnings can really add up — which means a lot of money that will never be taxed if withdrawn as part of a qualified distribution.



*Assumptions: $40,000 salary, 27 years until retirement, 2% annual raise and a 6% rate of return compounded annually.

Online Roth Calculator Tools Help You Decide

The calculators on **MillimanBenefits.com** can help you analyze your savings approach. To access these planning tools, click on the "Financial Wellness" link conveniently located on the top of each page. Then, click on "Calculators" under Resources along the left side of the page.

ACCESS YOUR ACCOUNT

- **Website:** Visit **MillimanBenefits.com**.
- **Milliman Mobile Benefits App:** Download from the App Store or Google Play.
- **Benefits Service Center:** Use Web Chat on **MillimanBenefits.com**. Representatives are available Monday through Friday from 7 a.m. to 7 p.m. Central time.