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PERSONAL FINANCE

Pre-tax vs. Roth 401(k): There's more to consider than you think

PUBLISHED MON, JAN 10 2022 2:40 PM EST



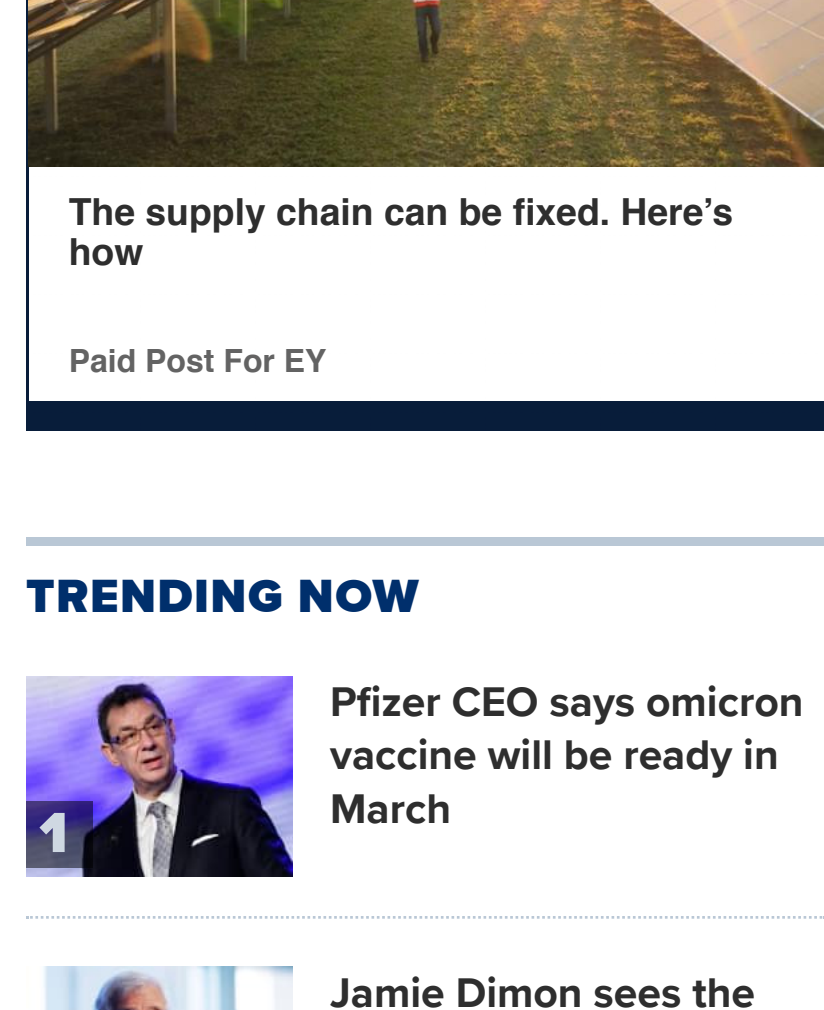
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KEY POINTS

- The start of the year is the perfect time to review your retirement savings, including pre-tax versus Roth 401(k) contributions.
- Pre-tax savings offers a write-off and tax-deferred growth, while Roth deposits may grow levy-free.
- However, there's more to consider than future brackets, according to financial experts.

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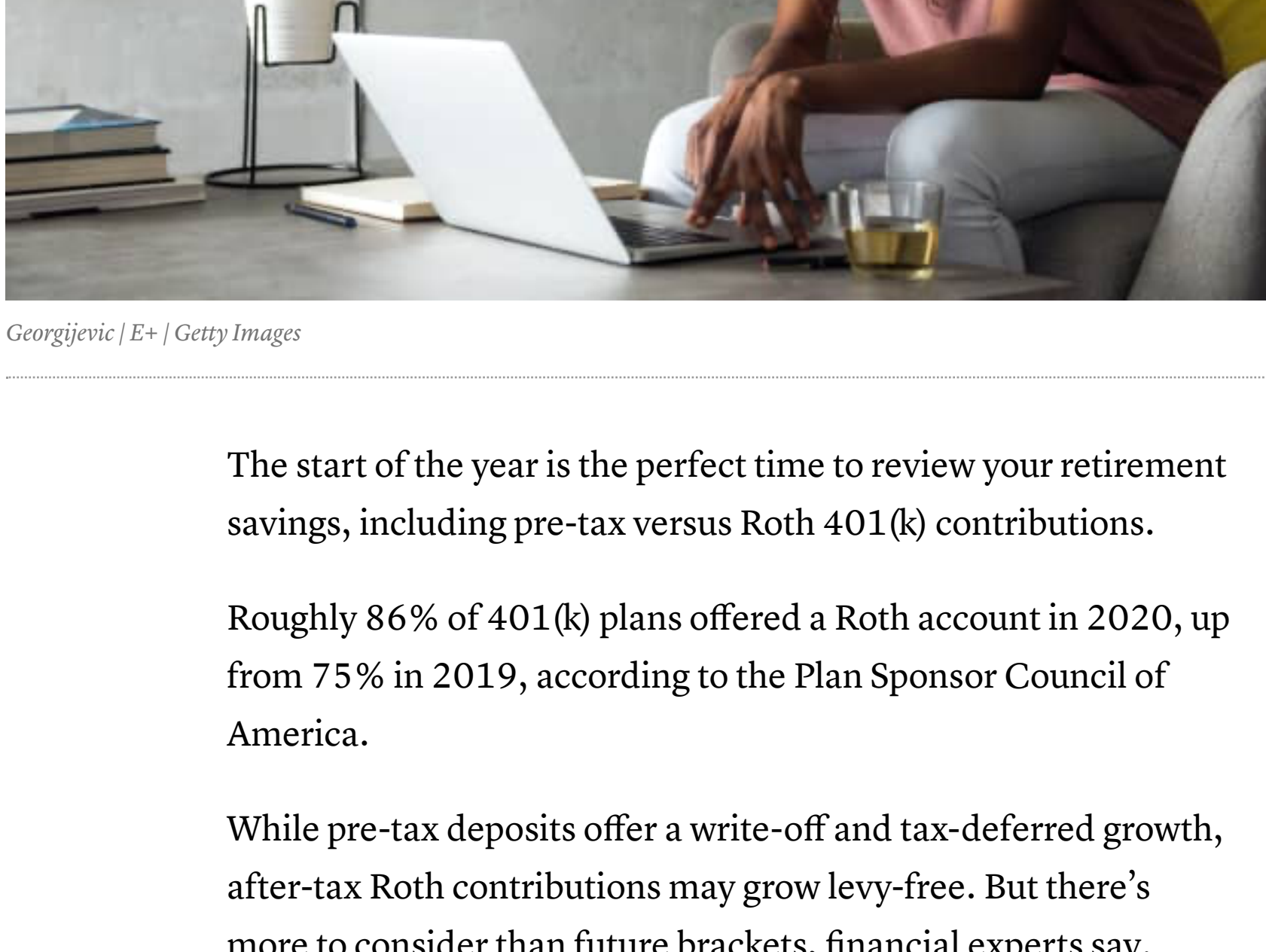
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The start of the year is the perfect time to review your retirement savings, including pre-tax versus Roth 401(k) contributions.

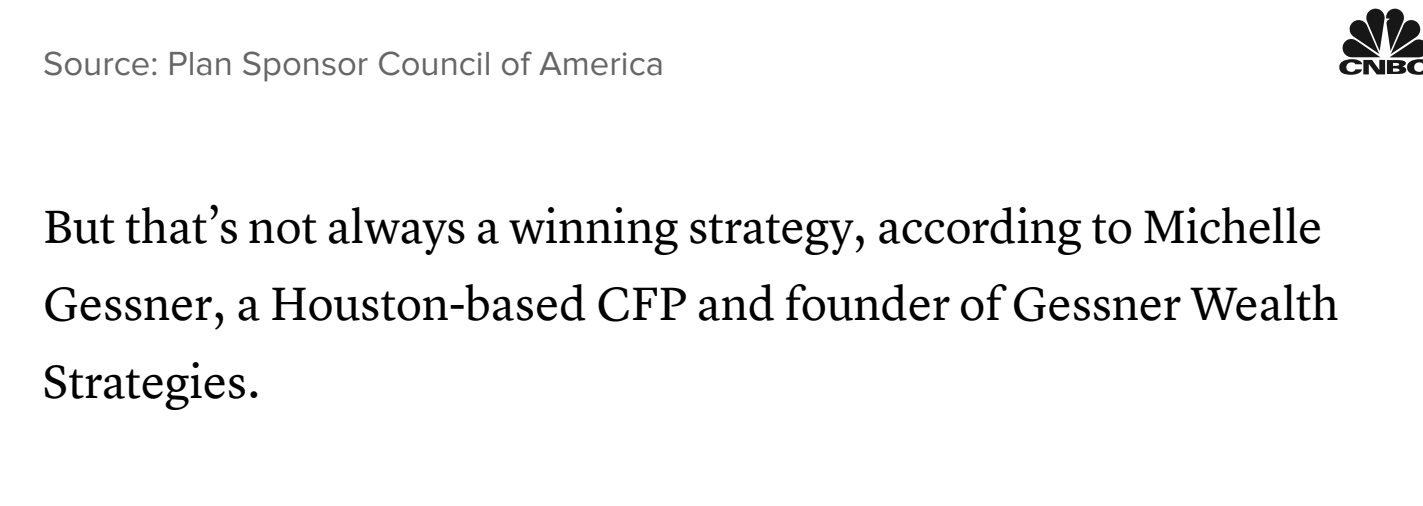
Roughly 86% of 401(k) plans offered a Roth account in 2020, up from 75% in 2019, according to the Plan Sponsor Council of America.

While pre-tax deposits offer a write-off and tax-deferred growth, after-tax Roth contributions may grow levy-free. But there's more to consider than future brackets, financial experts say.

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"In general, the goal is to take deductions at a higher tax rate and distributions at a lower one," said certified financial planner Ken Waltzer, co-founder and managing partner of KCS Wealth Advisory in Los Angeles.

If you plan on more income or higher taxes in retirement, tax-free withdrawals from Roth contributions may make sense, and tax-deferred contributions may be better if you expect lower earnings and levies.



But that's not always a winning strategy, according to Michelle Gessner, a Houston-based CFP and founder of Gessner Wealth Strategies.

"Investors are quick to discard the idea of making Roth contributions if they are in a high tax bracket because they want the deduction that comes with a regular 401(k) contribution," she said.

However, the upfront write-off may not be worth it if you worry about the consequences of taxable [required minimum distributions](#), she said.

Social Security taxes and Medicare premium hikes



When someone withdraws tax-deferred money from a 401(k), it boosts their income, which may trigger levies on Social Security and hike Medicare premiums.

The formulas for [Social Security taxes](#), [Medicare Part B](#) and [Medicare Part D](#) use so-called modified adjusted gross income, or MAGI.

If half of your Social Security payments plus MAGI is over \$34,000 (\$44,000 for a joint return), up to 85% of those benefits may be taxable.

However, the bigger issue for retirees above certain income levels may be the surcharge for Medicare Part B, known as the Income Related Monthly Adjustment Amount, or IRMAA.

Medicare 2022 Part B premium adjustments
All figures in USD

Individual tax return	Married file jointly	Adjustment	Payment
91K or less	182K or less	0	170.10
Above 91K up to 114K	Above 182K up to 228K	68	238.10
Above 114K up to 142K	Above 228K up to 284K	170.10	340.20
Above 142K up to 170K	Above 284K up to 340K	272.20	442.30
Above 170K and less than 500K	Above 340K and less than 750K	374.20	544.30
500K or more	750K or more	408.20	578.30

Source: Centers for Medicare & Medicaid Services

While the base amount for Medicare Part B premiums is \$170.10 for 2022, payments go up once income exceeds \$91,000 (\$182,000 for joint filers). The calculation uses MAGI from two years prior.

Roth withdrawals, however, won't show up on tax returns, said Gessner, meaning retirees don't have to worry about these distributions causing Medicare premium increases.

Tax diversification

Since no one can predict future tax rates, you may also consider creating a mix of pre-tax and after-tax funds from a diversification standpoint, experts say.

"It is great when clients have both Roth and traditional retirement savings," said Catherine Valeta, a CFP and wealth consultant at Green Bee Advisory in Winchester, Massachusetts.

If you have both pre-tax and after-tax funds, it may provide more options to craft an efficient retirement income plan, she said.

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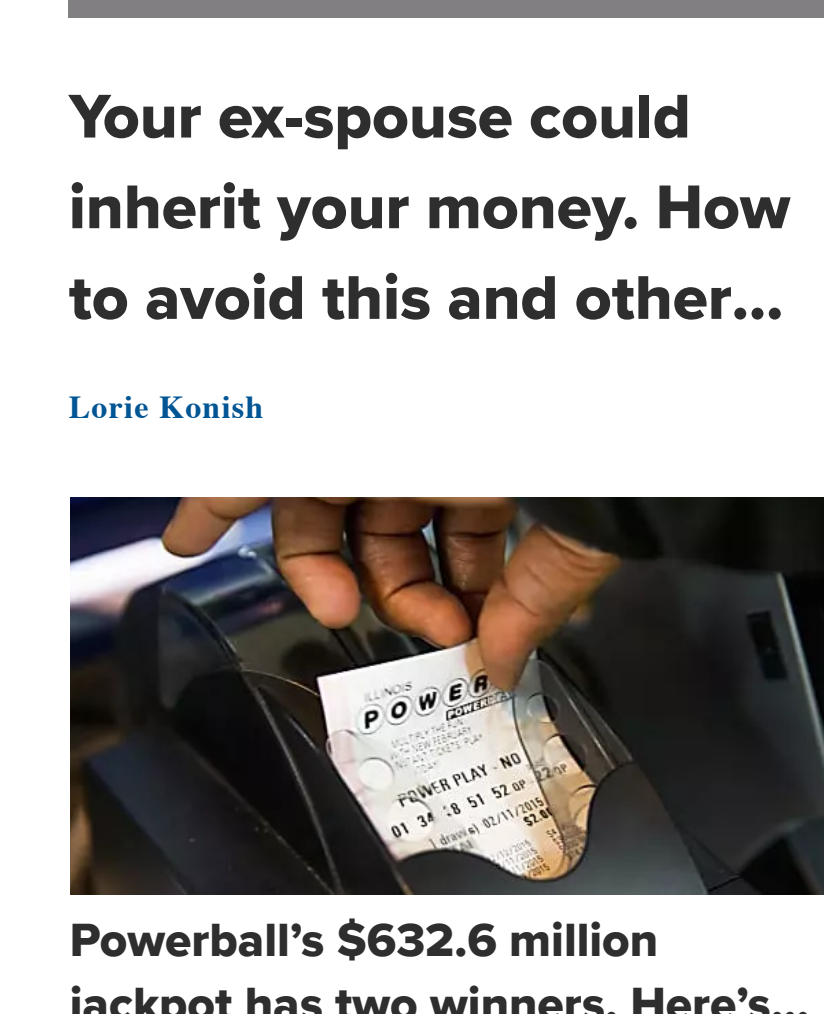
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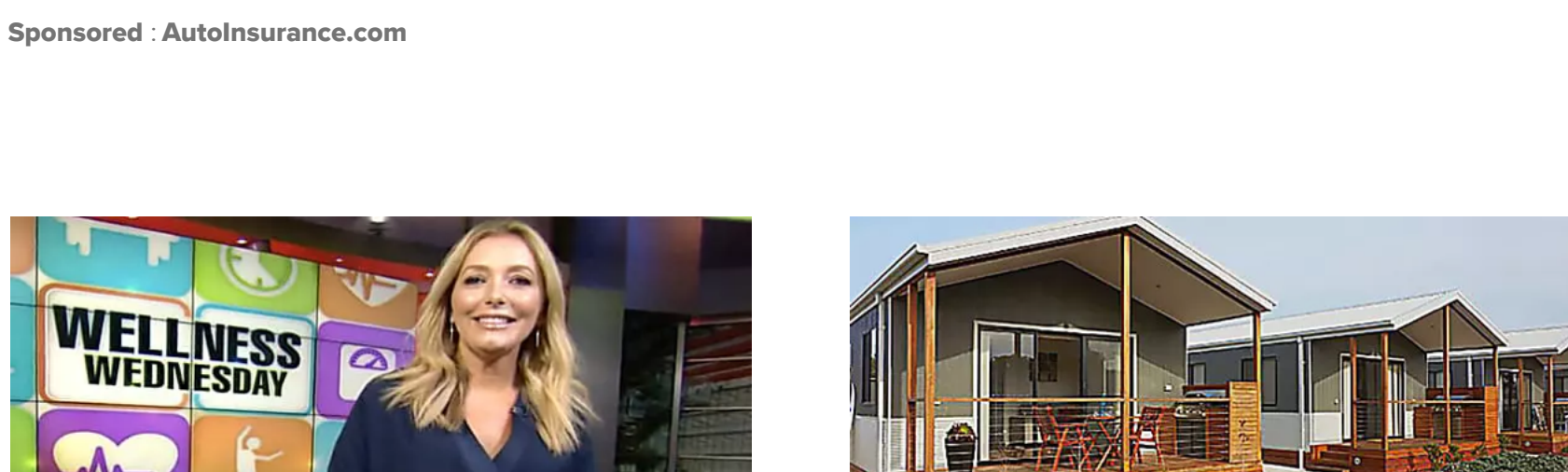
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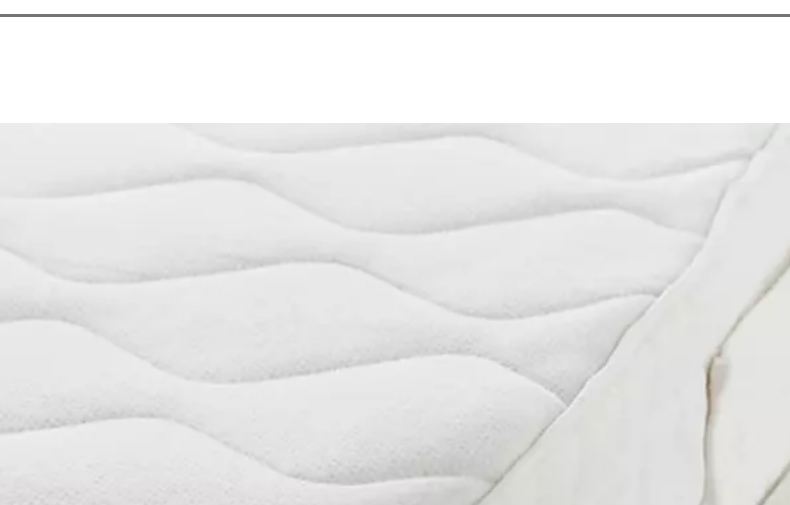
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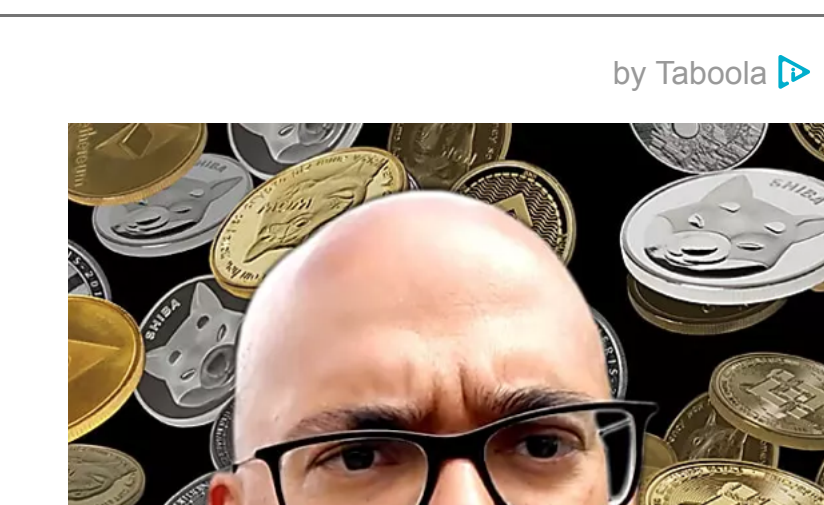
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