2023 · SHOULD I CONTRIBUTE TO MY ROTH 401(K)?

fpPATHFINDER

Start Here

Do you expect your future effective tax rates to be the same or higher than the current rates?

Yes / No

Are you eligible to contribute to a Roth IRA?

Yes / No

Prior to turning age 59.5, could you need to withdraw the contribution?

Yes / No

Consider a Roth IRA because you can withdraw the contributions at any time (tax and penalty-free). Roth 401(k) withdrawals must be permitted by the plan and also qualified, otherwise, distributions are made pro rata, subject to tax on earnings and possible penalties.

Can you save more than $6,500 per year ($7,500 if age 50 or over)?

Yes / No

Consider making a Roth 401(k) contribution because you can save up to $22,500 per year ($30,000 if age 50 or over).

Consider making a Roth 401(k) contribution to obtain any employer match (pre-tax or Roth); otherwise, a Roth IRA is generally the more flexible account.

Consider making a Roth 401(k) contribution. Unlike a Roth IRA, a Roth 401(k) has no income-based eligibility restrictions.

You will pay tax now, at the lower rates. In the future, qualified distributions will be tax-free, when you are presumably subject to a higher rate of tax.

Employer matching contributions may either be pre-tax (taxed upon distribution) or Roth (taxed as income upon receipt). Employer matching Roth contributions must be non-forfeitable (i.e., fully vested).

Due to changes made by the SECURE Act 2.0, Roth 401(k)s will no longer be subject to RMDs (starting in 2024).

Do you want to save more than $22,500 per year ($30,000 if age 50 or over)?

Yes / No

You could make non-deductible contributions to a traditional IRA and then convert to a Roth IRA, or to your 401(k) and then make an in-plan Roth rollover or conversion, or an in-service distribution to your Roth IRA (if permitted).

Reference the "Can I Make A Backdoor Roth IRA Contribution?" flowchart and your plan documents to see if you are eligible.

No additional planning considerations.

Consider making a traditional 401(k) contribution.

You will receive the tax deduction now, at the higher rates. In the future, eligible distributions will be taxed when you are presumably subject to a lower rate of tax.

Contributions to your traditional 401(k) will reduce your AGI, and can help you to qualify for credits and avoid surtaxes/surcharges.

© fpPathfinder.com. Licensed for the sole use of Darren Hill. All rights reserved. Used with permission. Updated 01/19/2023.