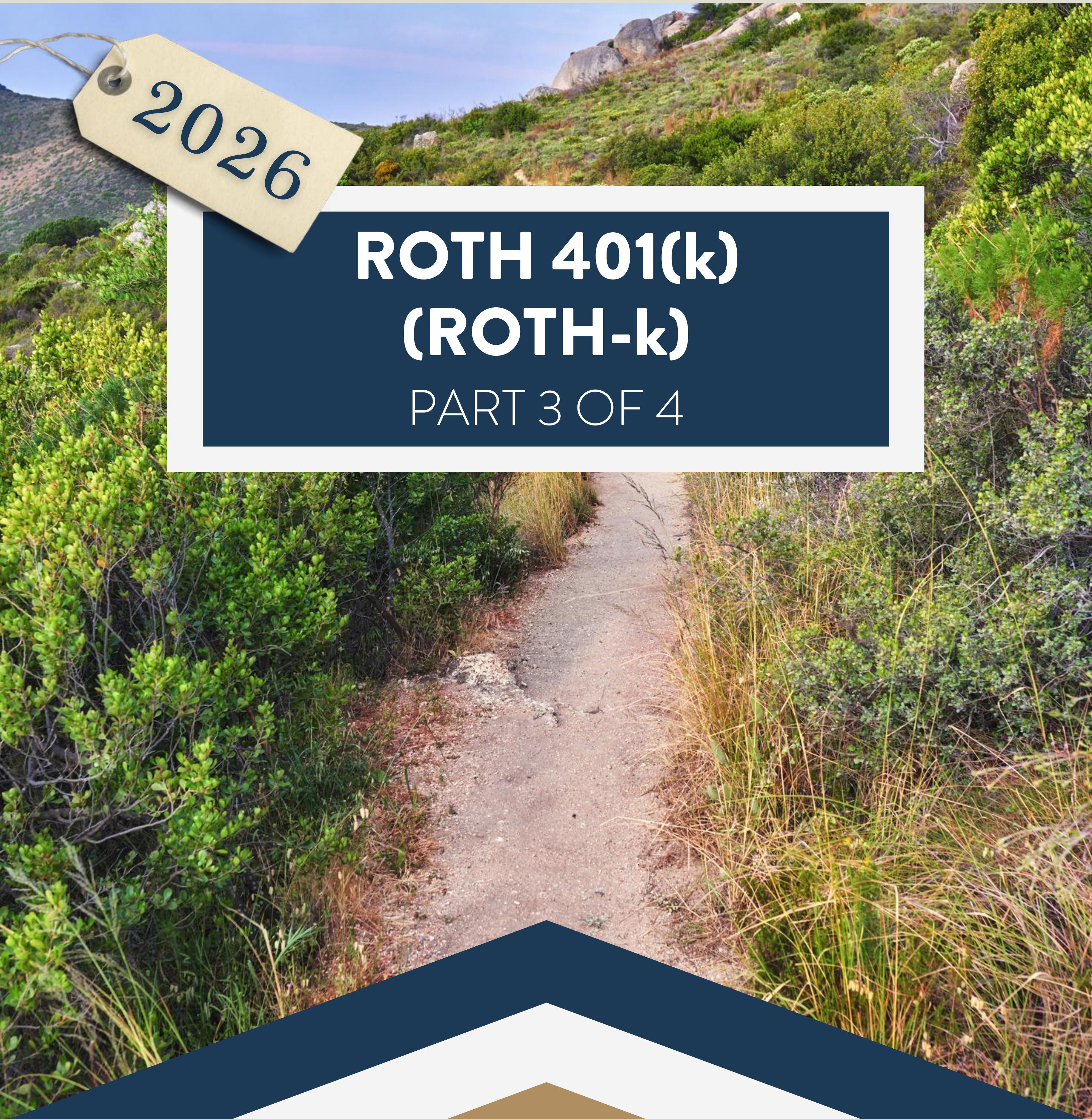
ASSET STRATEGY

Helping You Create, Manage, Protect, & Distribute Wealth®



ROTH 401(k) (ROTH-k)

PART 3 OF 4

What is a Roth 401(k)?

An employer-sponsored retirement savings plan that is funded with after-tax money is called a Roth 401(k). This means employee contributions are made with after-tax dollars, so income taxes are paid on those wages before the money is deposited into the account. After retirement, qualified withdrawals from the account are tax-free. [1.]

Unlike a Traditional 401(k), which is funded with pre-tax dollars and taxed upon withdrawal, a Roth 401(k) is funded with after-tax dollars and allows qualified withdrawals in retirement to be taken tax-free.

How Roth 401(k)s Work

When it comes to retirement savings, investors have numerous options. Employer-sponsored plans, such as the 401(k), are among the most common for saving retirement money.

Individuals who choose to participate consent to automatic payroll deductions being made into a designated retirement account. Employers may even match employee contributions up to a predetermined threshold.

While a traditional 401(k) has been available since 1978, the Roth 401(k) option was introduced in early 2006. Congress approved both as tax-advantaged retirement plans, offering workers different tax treatments, either tax deferral with a Traditional 401(k) or tax-free qualified withdrawals with a Roth 401(k). [2.]

A Roth 401(k) and a Traditional 401(k) have different tax advantages	
Traditional 401(k)	Roth 401(k)
A Traditional 401(k) reduces an employee's taxable income in the year contributions are made, providing an immediate tax benefit while saving for retirement. Withdrawals made during retirement are taxed as ordinary income.	A Roth 401(k) is funded with after-tax dollars, meaning income taxes are paid before contributions are deposited into the account. Qualified withdrawals of both contributions and earnings made in retirement are tax-free.

According to the 25th Annual Transamerica Retirement Survey, 67% of 401(k) plan sponsors offer the Roth 401(k) feature. [3.]

1. https://smartasset.com/retirement/401k-tax as of 1.16.2026
2. https://www.guideline.com/education/articles/evolution-of-401k as of 9.13.2022
3. https://www.transamericainstitute.org/docs/research/employers-benefit-offerings/new-frontiers-employers-and-evolving-workforce-survey-report-april-2025.pdf as of 4.1.2025

What are the Roth 401(k) Contribution Limits?

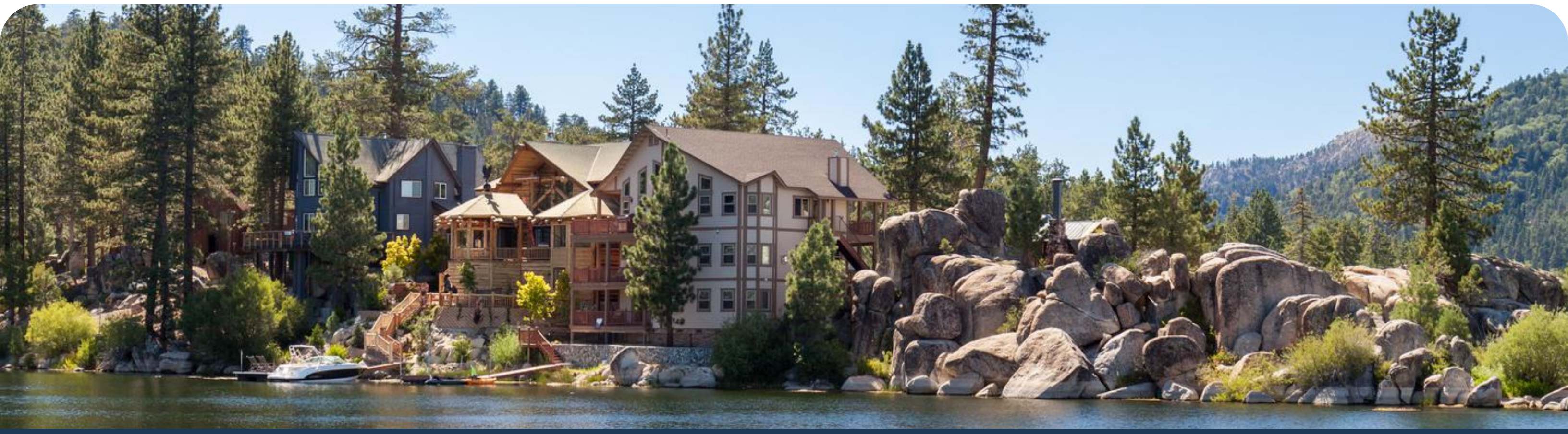
Contribution limits on a Roth 401(k) are determined by the age of the individual. The limits are provided by the Internal Revenue Service (IRS) and are updated periodically for inflation.

- The employee contribution limit for participants in 401(k), 403(b), and most 457 plans, as well as the federal government's Thrift Savings Plan, is **$24,500** in 2026.
- Individuals age 50 and older may contribute an additional **$8,000** as a catch-up contribution, totaling **$32,500**, subject to plan rules. [4.]
- The limit on annual contributions to an IRA is **$7,500** in 2026. The IRA catch-up contribution limit for individuals aged 50 and over is **$1,100** in 2026, which allows a total IRA contribution of **$8,600** for eligible individuals. [5.]

Retirement Account Type	Contribution Limit	Catch-Up At 50+	Income Limits
Roth IRA	$7,500	$1,100	• Single/Head of Household: Full contribution up to $153,000 MAGI; phase-out $153,000 - $168,000; none above $168,000. • Married Filing Jointly (MFJ): Full contribution up to $242,000 MAGI; phase-out $242,000 - $252,000; none above $252,000. • Married Filing Separately (MFS): Phase-out $0 - $10,000 (if lived with spouse).

Traditional Deductible	$7,500	$1,100	• If you ARE covered by a workplace plan:
			  ◦ Single/HoH: Phase-out $81,000 - $91,000 MAGI.
			  ◦ MFJ (both covered): Phase-out $129,000 - $149,000 MAGI.
			  ◦ MFS: Phase-out $0 - $10,000.
			• If you are NOT covered, but your spouse IS:
			  ◦ MFJ: Phase-out $242,000 - $252,000 MAGI.
			• If NEITHER covered by a plan: Contributions are fully deductible regardless of income.

4. https://www.irs.gov/newsroom/401k-limit-increases-to-24500-for-2026-ira-limit-increases-to-7500 as of 11.13.2025
5. https://www.nerdwallet.com/retirement/learn/roth-ira-contribution-limits as of 12.15.2025



What are the Roth 401(k) Withdrawal Rules?

Withdrawals from a Roth 401(k) are tax-free only if they qualify as a qualified distribution. To be considered a qualified distribution, both of the following requirements must be met:

#1

- The Roth 401(k) account must have been funded for at least five years, and

#2

- The withdrawal must occur on or after age 59½, due to a disability, or after the account owner's death.

When these requirements are met, withdrawals of both contributions and earnings are tax-free. If a distribution does not qualify, the portion attributable to earnings may be subject to ordinary income taxes and, in some cases, an early withdrawal penalty. Contributions made with after-tax dollars are generally not taxed again when withdrawn.

Required Minimum Distributions (RMDs)

Under current law, Roth 401(k) accounts are no longer subject to required minimum distributions during the account holder's lifetime. The SECURE Act 2.0 eliminated lifetime RMDs for Roth 401(k)s beginning in 2024, aligning them with Roth IRA rules.

By contrast, tax-deferred retirement accounts, such as Traditional IRAs, rollover and inherited IRAs, SIMPLE IRAs, SEP IRAs, and pre-tax employer plans like Traditional 401(k)s, 403(b)s, and 457(b) plans, are subject to required minimum distributions.

For these tax-deferred accounts, RMDs generally must begin at age 73. This change was made under SECURE Act 2.0, which increased the RMD starting age from 72 to 73.

- If you turned 72 in 2022 or earlier, you must continue taking RMDs under the prior schedule.
- If you turn 73 in 2025 or later, your RMDs generally begin at age 73, unless future legislation changes the rules.

The IRS determines the required withdrawal amount each year based on your account balance and life expectancy. While you may always withdraw more than the required minimum, withdrawing less than the required amount or failing to take an RMD can result in penalties.

The penalty for a missed RMD is 25% of the amount not withdrawn. If the error is corrected within the IRS correction window, the penalty may be reduced to 10%.

What Are Some Advantages and Disadvantages of Roth 401(k)s?

One of the primary advantages of a Roth 401(k) is its potential benefit for employees who are currently in a lower tax bracket but expect to be in a higher tax bracket during retirement. Contributions to a Roth 401(k) are made with after-tax dollars, meaning income taxes are paid at the contributor's current tax rate. If tax rates are higher in retirement, qualified withdrawals of both contributions and earnings can be taken tax-free, which may result in meaningful long-term tax savings. Additionally, once the account holder retires, qualified distributions remain tax-free regardless of how much the account grows over time.

A key disadvantage of a Roth 401(k) is the immediate tax impact on take-home pay. Unlike Traditional 401(k) contributions, which are made on a pre-tax basis and reduce current taxable income, Roth 401(k) contributions do not provide an upfront tax deduction. As a result, employees contribute money that has already been taxed, which can feel more costly in the year contributions are made and may reduce short-term cash flow. [6.]

PROS

- May benefit individuals who expect to be in a higher tax bracket in retirement
- Qualified distributions taken during retirement are tax-free
- Earnings grow tax-free when withdrawal requirements are met

CONS

- Contributions are made with after-tax dollars
- Contributions do not reduce current taxable income

6. https://turbotax.intuit.com/tax-tips/investments-and-taxes/the-tax-benefits-of-your-401k-plan/L8QHCzbiO as of 11.1.2025

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The Bottom Line

Roth 401(k) plans provide employees with a powerful way to save for retirement while gaining long-term tax advantages. Like other employer-sponsored 401(k) plans, they often include features such as automatic payroll deductions and, in many cases, an employer matching contribution. These features can help employees build retirement savings consistently over time and take advantage of potential employer-sponsored benefits.

What sets a Roth 401(k) apart is its tax treatment. Contributions are made with after-tax dollars, meaning income taxes are paid upfront. In exchange, qualified withdrawals of both contributions and earnings can be taken tax-free during retirement. This structure may be especially appealing to individuals who expect their tax rate to be higher in the future or who value the certainty of tax-free income later in life.

Ultimately, deciding whether a Roth 401(k) is the right choice depends on factors such as current income, expected future tax rates, and overall retirement goals. When used as part of a broader retirement strategy, a Roth 401(k) can be a valuable tool for building tax-efficient income and creating greater flexibility in retirement planning.

Contact us today for a review of your finances to determine whether Roth IRA strategies align with your overall financial plan.

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