

SHA Retirement – One Digital

# Roth vs Pre-Tax

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# Roth Vs Pre-tax

## Workshop Agenda

- Tax Diversification
- Roth 403b / IRA Basics
- Funding Limits
- Keys & special rules
- When does Roth makes sense
- Retirement tax window
- Convert?
- Myths

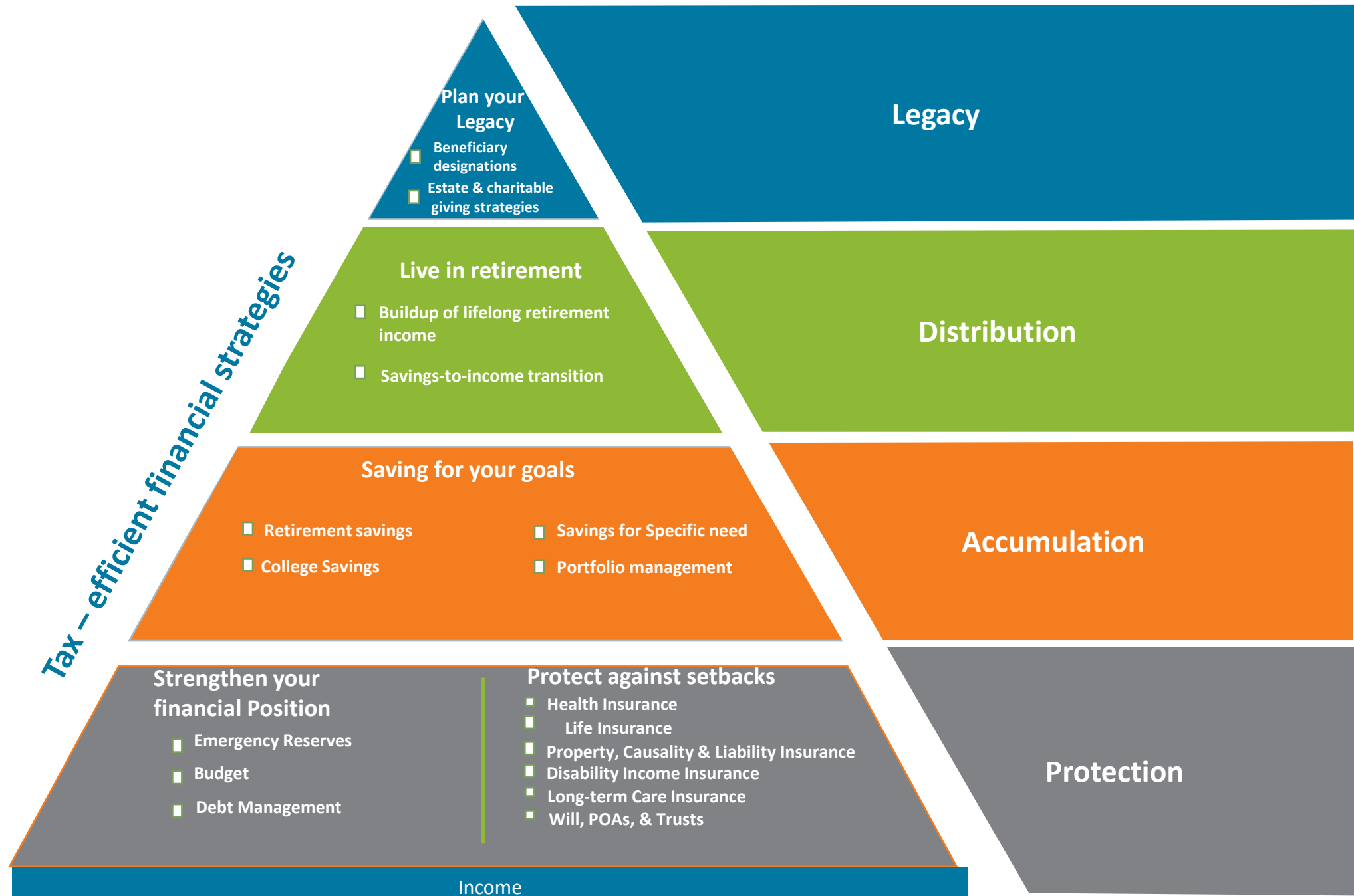


# Disclaimer

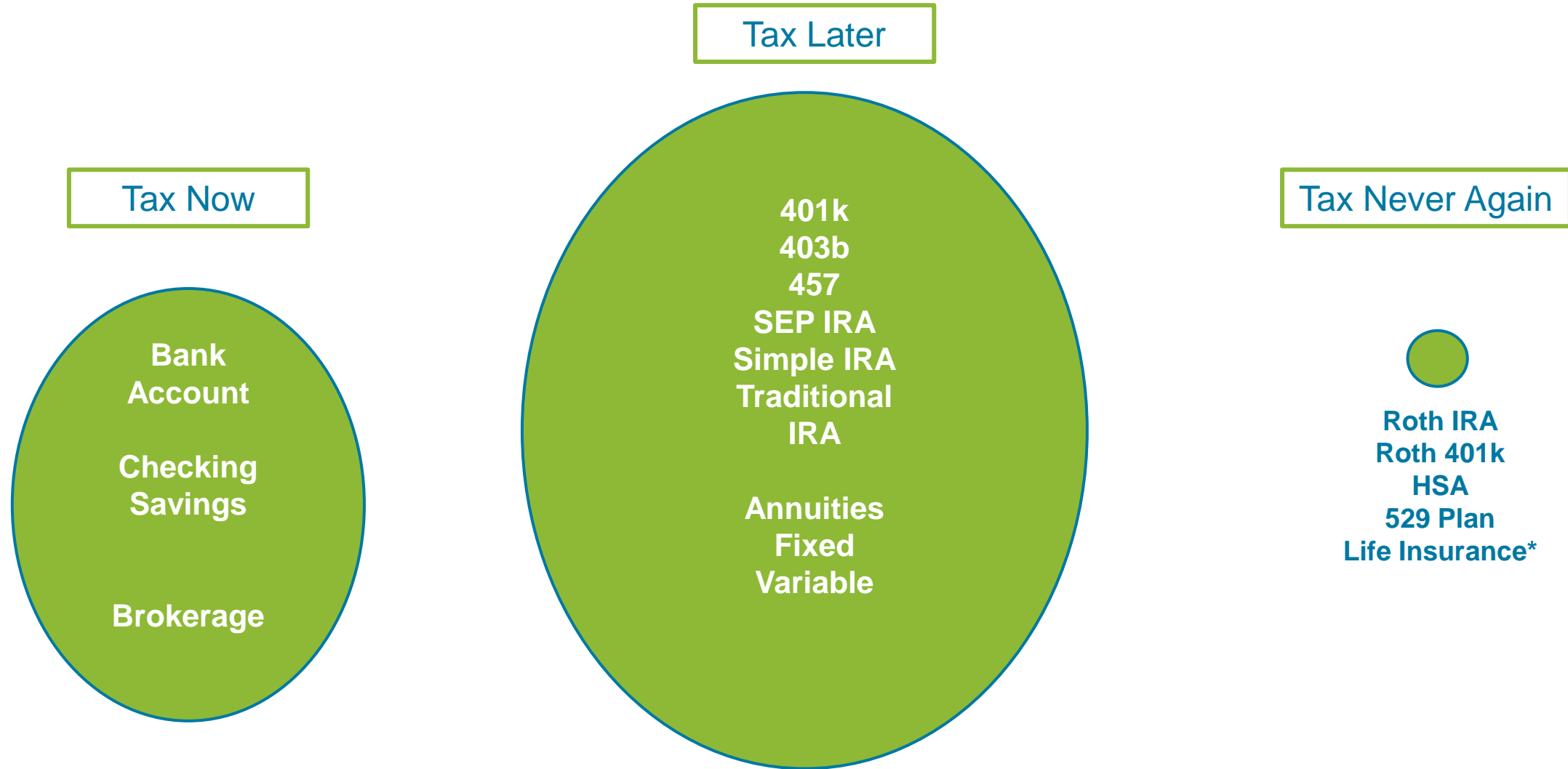
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# Financial Building Blocks



# Tax Diversification





# Seed or Harvest

**Pre-Tax**  
Pay Tax on the Harvest!

**Roth**  
Pay tax on the seed!



## Roth 403b & Roth IRA:

Age 59 ½ qualified withdrawals are 100% including growth **Tax Free!**

**Bank Account**  
**After Tax**



Roth IRA:  
Before 59 1/2 you can remove your contributions with no penalty or taxation.

Hypothetical Examples: Not allowed in a ROTH 401k depending on plan document.

# Funding Limits 2021

## Pre-Tax 403b

Under Age 50

\$19,500

Over Age 50

\$26,000

**\$6,500 Caught Up**

## Roth 403b

Under Age 50

\$19,500

Over Age 50

\$26,000

**\$6,500 Caught Up**

## Traditional IRA

Under Age 50

\$6,000

Over Age 50

\$7,000

**\$1,000 Caught Up**

## Roth IRA

Under Age 50

\$6,000

Over Age 50

\$7,000

**\$1,000 Caught Up**

Little known \$3,000 caught up for long term for educators with 15 year plus same employer.





# Roth IRA Income Phase Out

**Single Tax Filer MAGI = \$125,000 to \$140,000**

**Joint Tax Filer MAGI = \$198,000 to \$208,000**

**NO INCOME Phase Out = 403b or 401k**

# 2021 Traditional IRA Deduction Limits

If your filing status is...	And your modified AGI is...	Then you can take...
Single, head of household, qualifying widow(er), married filing jointly or separately and neither spouse is covered by a plan at work	Any amount	A full deduction up to the amount of your contribution limit
Married filing jointly or qualifying widow(er) and you're covered by a plan at work	\$105,000 or less	A full deduction up to the amount of your contribution limit
	More than \$105,000 but less than \$125,000	A partial deduction
	\$125,000 or more	No deduction
Married filing jointly and your spouse is covered by a plan at work	\$198,000 or less	A full deduction up to the amount of your contribution limit
	More than \$198,000 but less than \$208,000	A partial deduction
	\$208,000 or more	No deduction
Single or head of household and you're covered by a plan at work	\$66,000 or less	A full deduction up to the amount of your contribution limit
	More than \$66,000 but less than \$76,000	A partial deduction
	\$76,000 or more	No deduction
Married filing separately and either spouse is covered by a plan at work	Less than \$10,000	A partial deduction
	\$10,000 or more	No deduction





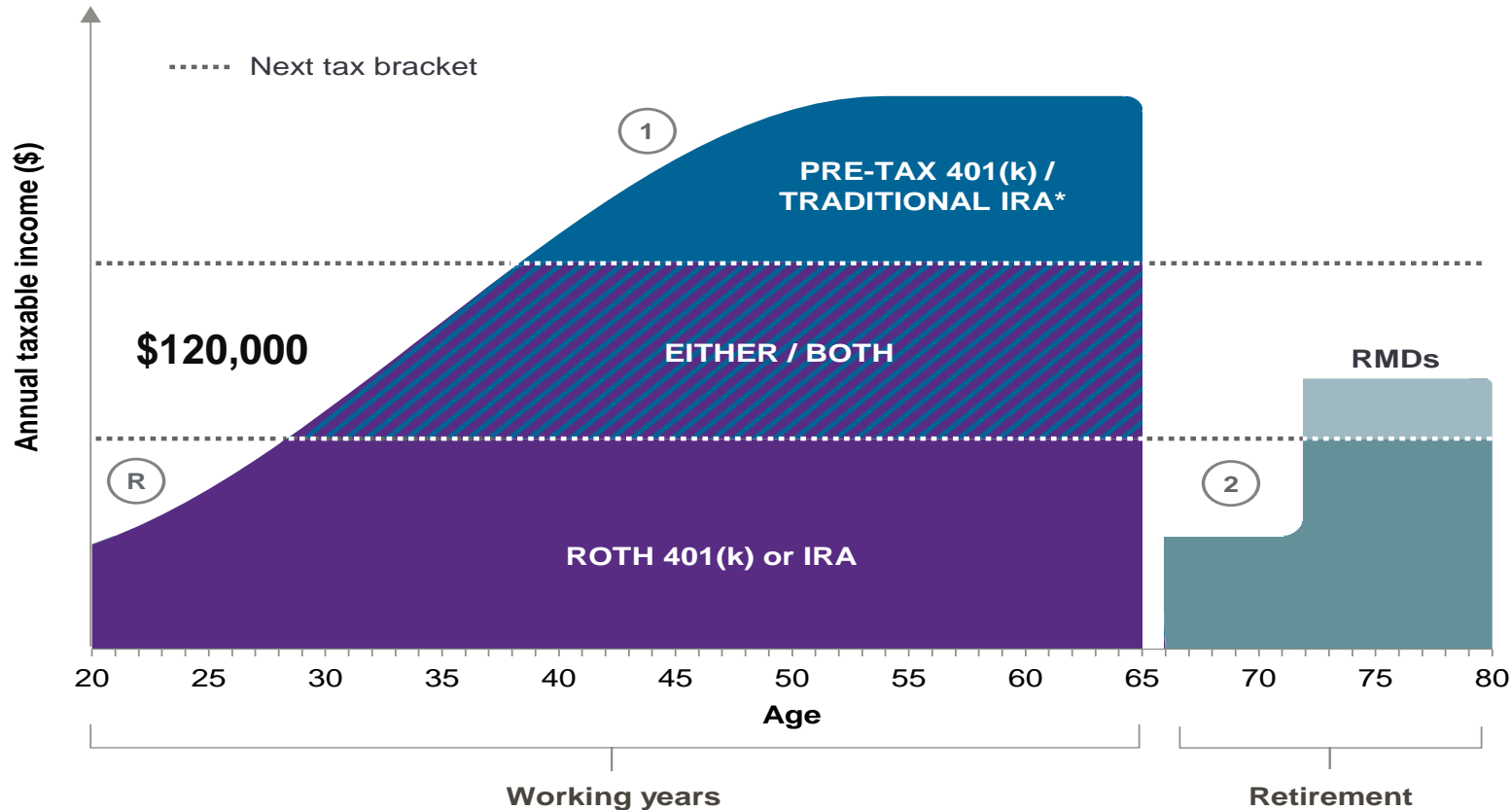
## Roth Rules of Thumb

- Lower the income bracket the more Roth makes sense.
- Middle income consider a little of both Roth & Pretax.
- High Income consider Pretax.

# Evaluate a Roth at different life stages

## Changes in lifetime taxable income

Hypothetical wage curve



### TAX DIVERSIFICATION

Managing taxes over a lifetime requires a balance of your current and future tax pictures. Make income tax diversification a priority to have more flexibility and control in retirement.

**Rule:** Contributing to a Roth early in your career and shifting as your income increases.

1. Roth 401(k) contributions in peak earning years if wealth is concentrated in tax-deferred accounts.

2. Proactive Roth conversions in lower income retirement years if RMDs are likely to push you into a higher bracket.

\*If eligible to make a deductible contribution (based on your MAGI). The illustration reflects savings options into Traditional and Roth IRA accounts, as well as into pre-tax and Roth 401(k) accounts. RMD = Required Minimum Distributions, which are typically due no later than April 1 following the year the owner turns 72 and are calculated every year based on the year-end retirement account value and the owner/plan participant's life expectancy using the IRS Uniform or Joint Life Expectancy Table. Employer contributions are typically pre-tax and are subject to tax upon distribution.

The above example is for illustrative purposes only.

Source: J.P. Morgan Asset Management.



## 2021 Standard Deduction

Filing Status	Deduction Amount
Single	\$12,550
Married Filing Jointly	\$25,100
Head of Household	\$18,800

Source: Internal Revenue Source



Gross Income

\$107,000

-

Standard Deduction

\$25,100

=

Net Income

\$81,900

1,000 of pretax 403b deferral.

= 80,900 income

1,000 of pretax would keep all income in 12% bracket in theory.

### 2021 Federal Income Tax Brackets and Rates for Single Filers, Married Couples Filing Jointly, and Heads of Households

Rate	For Single Individuals	For Married Individuals Filing Joint Returns	For Heads of Households
10%	Up to \$9,950	Up to \$19,900	Up to \$14,200
12%	\$9,951 to \$40,525	\$19,901 to \$81,050	\$14,201 to \$54,200
22%	\$40,526 to \$86,375	\$81,051 to \$172,750	\$54,201 to \$86,350
24%	\$86,376 to \$164,925	\$172,751 to \$329,850	\$86,351 to \$164,900
32%	\$164,926 to \$209,425	\$329,851 to \$418,850	\$164,901 to \$209,400
35%	\$209,426 to \$523,600	\$418,851 to \$628,300	\$209,401 to \$523,600
37%	Over \$523,600	Over \$628,300	Over \$523,600

Source: Internal Revenue Service

We do not provide tax advice this a rough example illustration purposes. Seek advice from your tax professional!



## Required Minimum Distributions

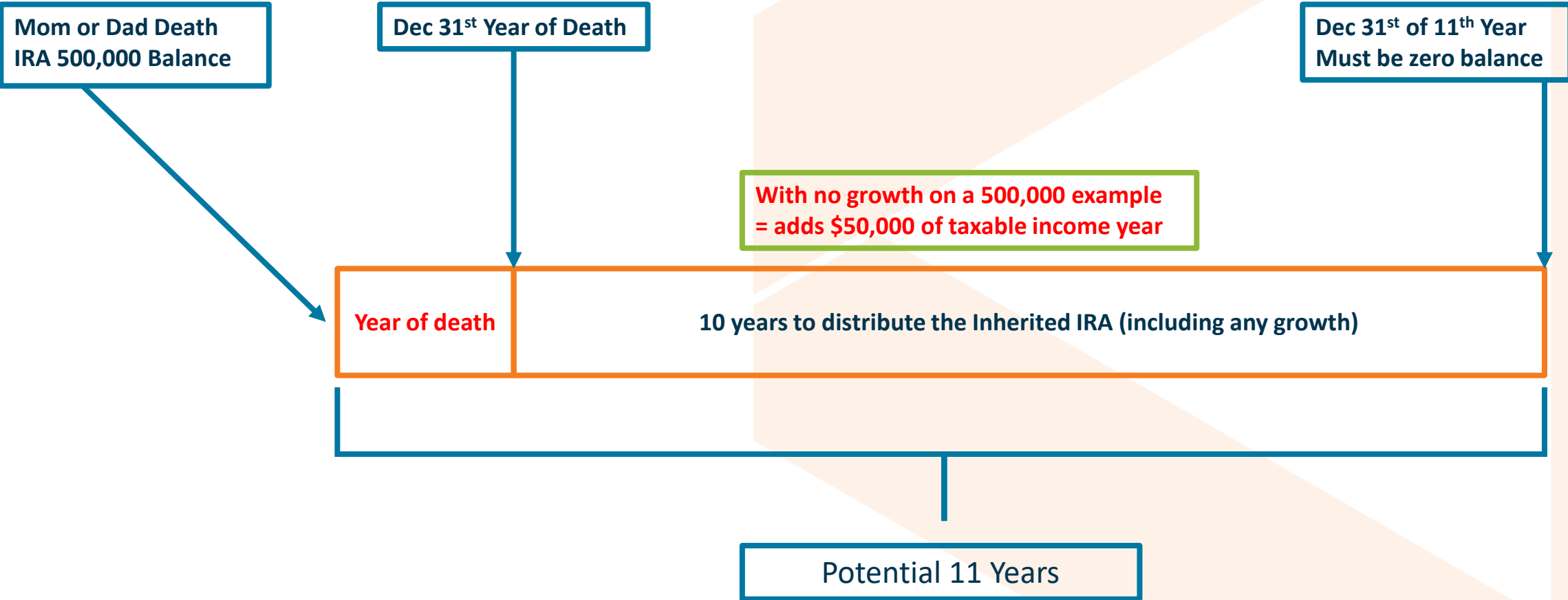
### Traditional 403b/ IRA (pretax)

- Age 72 (403b & IRA)
- 401k still working could delay
- Inherited IRAs 10-year rule

### Roth 403b/ IRA

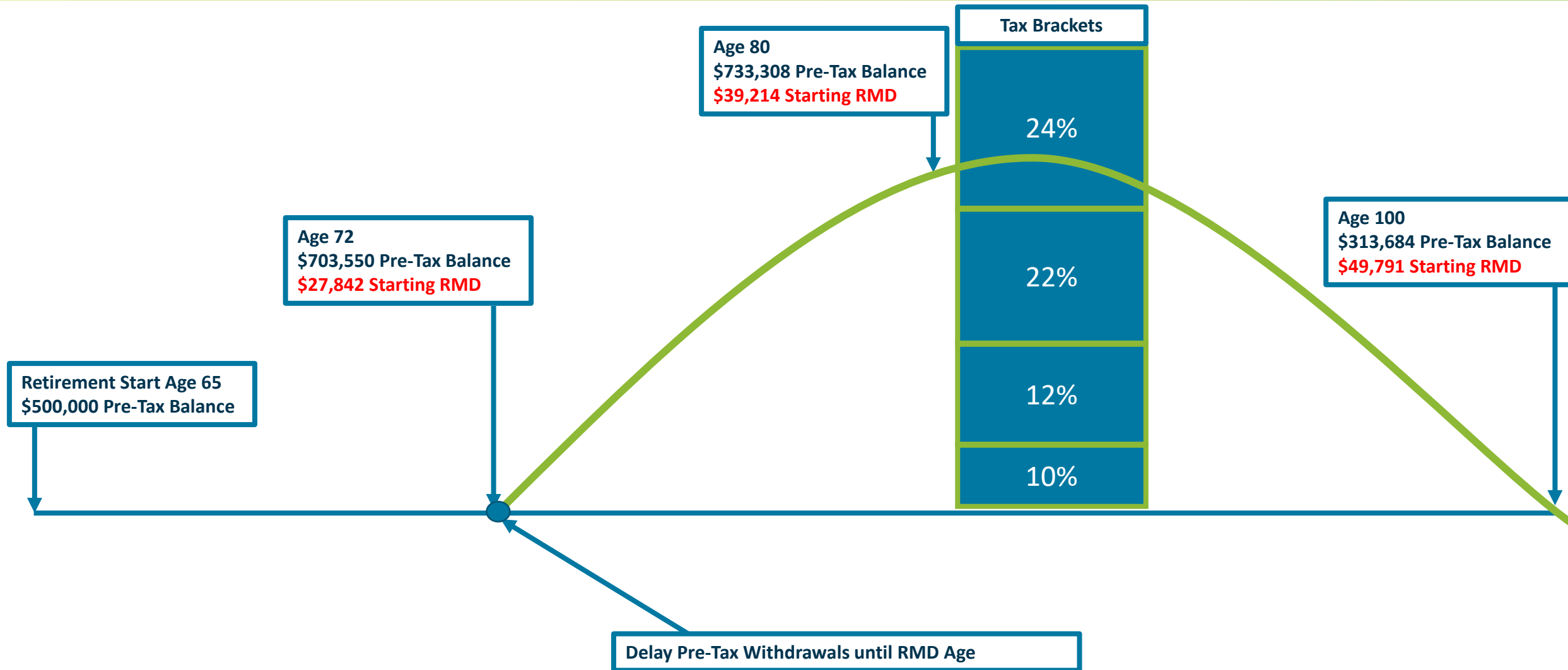
- Age 72 (403b)
- No RMD Roth IRA
- Inherited IRAs 10-year rule

# Inherited IRA RMDs

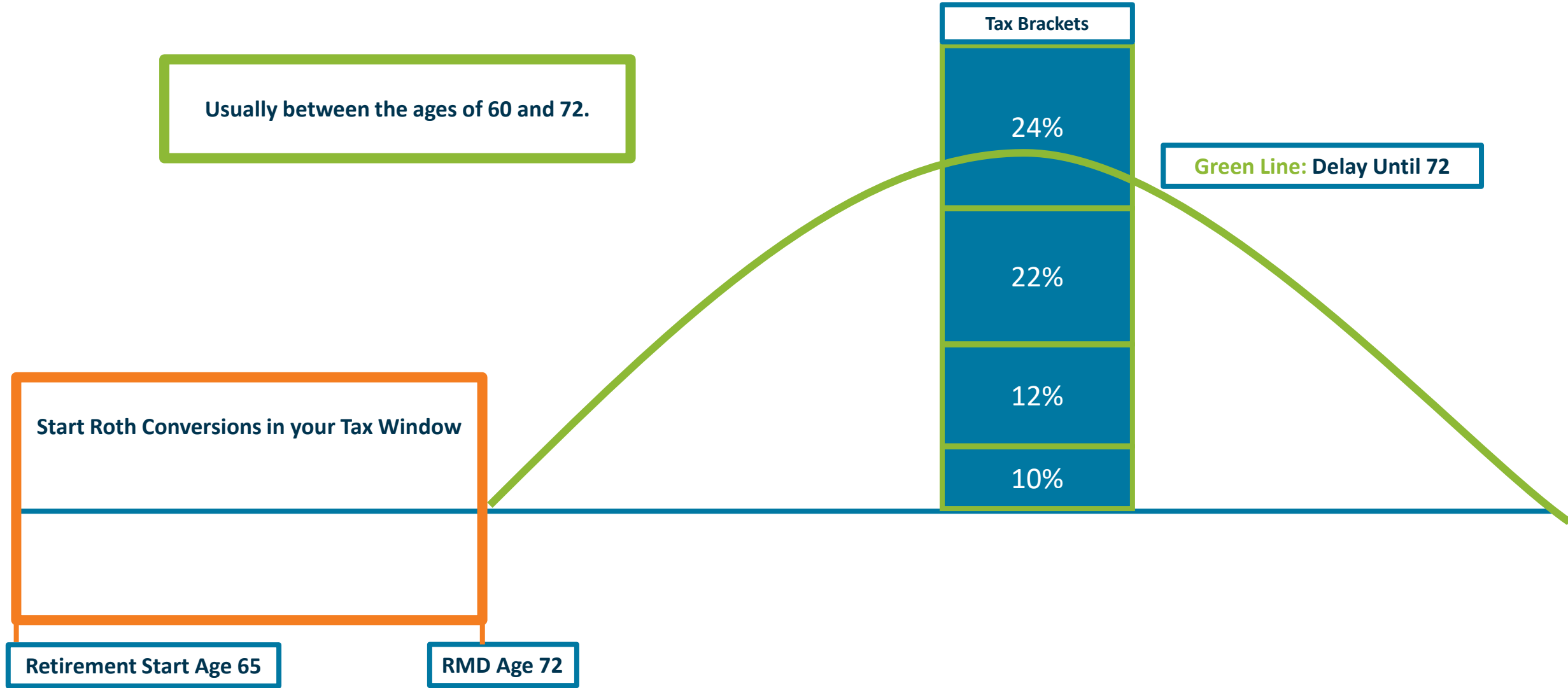




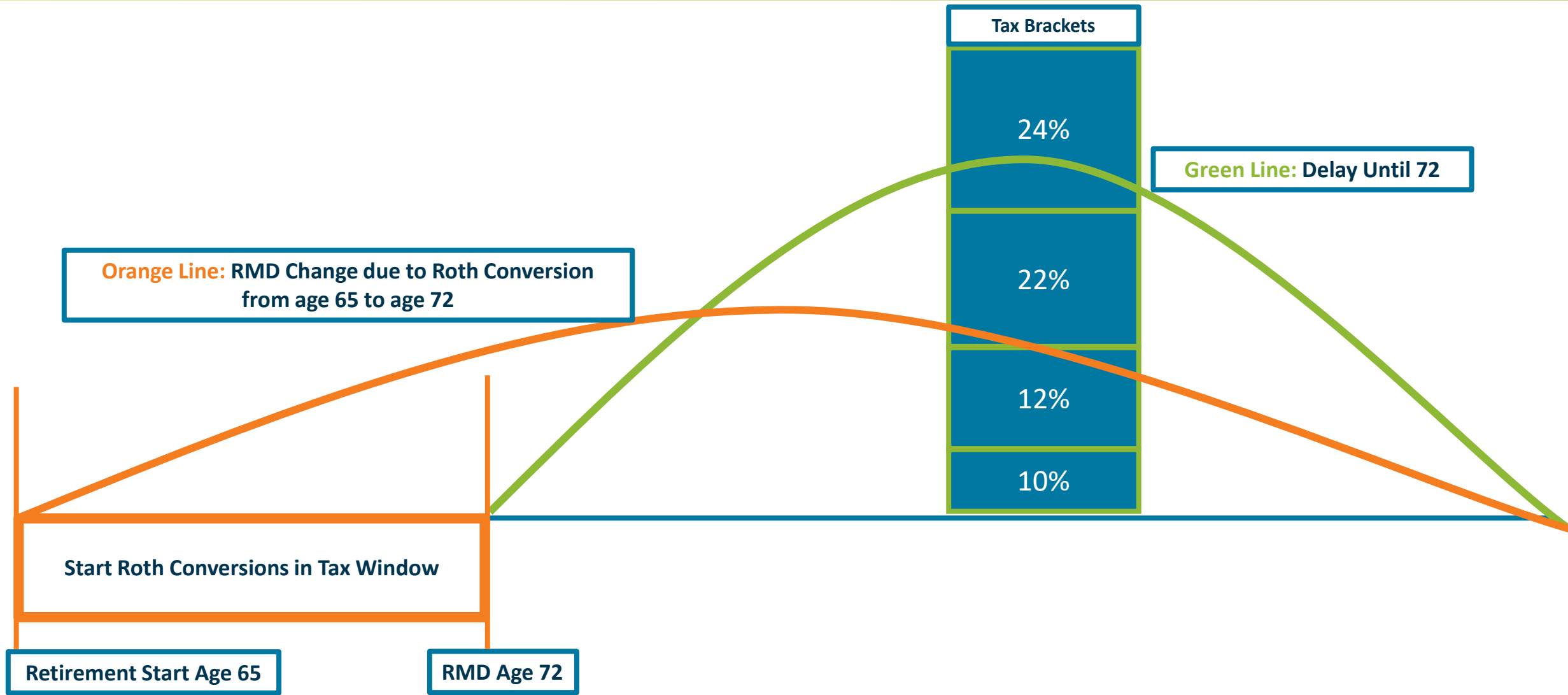
# Pretax RMD Example



# Retirement Tax Window



# Retirement Tax Window





## Roth Special Rules

- 5-year Rules
  - Conversion have own 5-year rule. (avoiding 10% penalty)
    - Seek Professional Advice when considering conversions.
  - 5-year rule regarding qualified withdrawals.
    - **58-year-old example:**
    - New Roth IRAs must wait 5 years before earning/gains can be considered a qualified withdrawal
- Start a Roth IRA with \$1 to start the 5-year clock running. Reverting to Jan 1 of the year contributed.



**Single Tax Filer MAGI = \$125,000 to \$140,000**

**Joint Tax Filer MAGI = \$198,000 to \$208,000**

**NO INCOME Phase Out = 403b or 401k**

- Fund a Non-Deductable IRA then convert to Roth IRA.
- Watch out for pro rata IRS rule.
- Seek a tax or financial professional before executing.

High Income Earners

Back Door Roth IRA



# Myths

## Common Questions

Myth:

Anyone can contribute to a Roth IRA or Traditional IRA.

**False - (must have earned income or spouse must have earned income)**

**Social Security & Pension Income are not “earned income”.**

Myth:

If contributing to a Roth 403b you can not contribute to an IRA/Roth IRA.

**False - Income phase on Roth IRAs would apply or Deduction Phase outs on traditional.**

Myth:

If making over \$208,000 jointly or 140,000 single you are not able to contribute to a Roth 403b/401k.

**False – NO income Phase out on Roth 403bs or Roth 401ks. (only Roth IRAs)**

Myth:

Employer match money goes into the Roth 403b as well.

**False - ( match money goes into the employer pretax bucket)**

Best to prepare before you must repair!

# Team

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