



CBIZ WORKPLACE FINANCIAL PLANNING®

# Understanding Roth Accounts

*Saving for retirement is important, and understanding your options can help you make the most of your savings. Roth contributions offer a way to build a nest egg with tax-free withdrawals, giving you more control over your financial future.*

## How Roth Contributions Work

A Roth contribution is money put into a retirement account using after-tax dollars. Unlike traditional pre-tax contributions, you've already paid taxes on the money at your current tax rate before it goes in.

The big advantage comes later: once you're at least age 59½ and the account has been open for five years, both contributions and investment growth can be withdrawn tax-free.

There are two main ways to save in a Roth account, and each type has its own rules and benefits.

- **Employer-Sponsored Roth 401(k) or 403(b) Accounts**

Employer-sponsored Roth accounts make saving easy through automatic payroll deductions and have higher annual contribution limits than IRAs. Your employer may also offer a matching contribution, which helps boost your retirement savings (a match is typically deposited on a pre-tax basis). These accounts may be particularly useful for high-income earners since there are no income limits to contribute, and employees who want to maximize savings because of the higher contribution limits.

- **Roth IRAs**

A Roth IRA is opened individually through a bank or brokerage firm, often giving you more investment choices. Roth IRAs provide additional withdrawal flexibility, since contributions (but not earnings) can generally be withdrawn at any time without taxes or penalties. Roth IRAs may be especially helpful for individuals seeking flexible investment options and withdrawals.

## Benefits Shared by Both Roth Options

Roth accounts offer several advantages that apply across both IRAs and employer-sponsored plans. They provide tax-free growth on contributions and earnings, which can be especially valuable for younger workers who have many years to save and be in a lower tax bracket now. Having both pre-tax and Roth accounts also creates flexibility in managing taxable income during retirement and can help reduce future taxes on Social Security, Medicare, and other retirement income. From an estate planning perspective, there is greater control over the accounts since they are not subject to required minimum distributions during the original owner's lifetime and heirs can generally inherit Roth money tax-free.

## Choosing What's Best for You

Both Roth IRAs and employer-sponsored Roth accounts offer powerful tax advantages. Since contribution limits are separate, some people choose to use a combination of both.

Visit the IRS website to review current income and contribution limits for retirement accounts at <https://www.irs.gov>.

Be sure to review your own financial circumstances and consult a qualified tax professional to help you determine the right mix of traditional pre-tax and/or Roth contributions for your situation.

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