Choosing Between a Traditional and a Roth Plan

Two boxes appear on the screen, one labeled R and one labeled T. **Narrator:** “Many employers today offer two types of retirement savings plans: a traditional plan and a Roth plan. Both plans offer a simple and effective way to save for retirement.”

The boxes morph to a triangle with a T and a square with an R, both with slots on top, into which coins are dropped and then emerge from the bottom. **Narrator:** “But the two differ in how they are taxed. Which may be suitable for you will depend upon the characteristics of each and how well they address your particular circumstances. With a traditional plan, your contributions are made on a pretax basis. That means you get a tax break when you make them. Instead, contributions and earnings are taxed when you withdraw them in retirement. With a Roth plan, contributions are made on an after-tax basis — you pay tax on them when you make them. But withdrawals in retirement are tax free.”

A table appears showing the words “Contribution Limits” and “Income Restrictions.” The screen then changes to show the square and triangle rotating around the screen. **Narrator:** “Both plan types have the same contribution limits, no income restrictions, and can be rolled over into similar-type plans or IRAs when you change jobs. So how do you choose?”

Numbers appear on top of the square and triangle, running from 30 to 22 over the T triangle and from 10 to 6 over the R square. Boxes then rotate around the screen. **Narrator:** “Roth plans tend to work better for those who are still many years away from retirement. If you plan to retire in 10 years or less, a traditional plan may be a better choice.”

A bar chart appears with bars representing different tax rates, with the T and R boxes blinking on top of some of them. **Narrator:** “If you think your tax rate will be higher when you retire than it is today, you may want to consider a Roth plan. If you expect to be in a lower bracket when you retire, then a traditional plan may make more sense.”

The bar chart shrinks to two bars, one growing to 70% in 1960 and the other to 37% today. **Narrator:** “Keep in mind that tax rates can change. Historically, today’s tax rates are relatively low. For example, during the mid-1960s, the highest income tax rate was 70%. Today, it’s just 37%.”

Dollar icons move across screen with the T and R boxes superimposed. **Narrator:** “If you would struggle to contribute to your plan without the immediate tax benefit, then a traditional plan is probably best for you. But if a tax break today is not that critical, or if your compensation makes you ineligible to contribute to a Roth IRA, a Roth plan may be your best opportunity for tax-free income in retirement.”

The T and R boxes return with slots on top and half coins dropping into them. **Narrator:** “But it doesn’t have to be all or nothing. Participants can split their contributions between Roth and traditional accounts.”

Text bubbles appear, representing discussions with a plan administrator or financial professional, followed by the T and R boxes split in half. **Narrator:** “Talk to your plan administrator to learn more about the specifics of your employer’s plan offerings. You may also want to consult a financial professional to help you determine which type or combination of plans works best for you.”