Understanding

How do I choose between traditional and Roth accounts?

Making a sound decision hinges on your estimation of the taxes you think you will pay in retirement.

- If you expect your tax rate to be the same or higher in retirement than it is now, you might consider Roth.
- If you are younger and have many years to contribute over time, you may find that a greater proportion of your account will be made up of earnings. Since earnings may be tax free in a Roth account, this can be a powerful tax benefit.
- If you are a highly compensated employee, a Roth may be appealing. Unlike a Roth IRA, there are no income limitations to participate. High income earners are able to save in a retirement account that offers the potential for tax-free distributions.
- If you would like to diversify your future tax risk, you may want to put some of your retirement money in a Roth. Since qualified distributions are tax-free, you won't have to worry about future tax rates and how they may reduce your retirement income.
- If you have already reached your retirement savings goals and are more concerned with transferring assets to your heirs, you may want to consider making Roth contributions.

Designated Roth vs. Traditional vs. Roth IRA

Feature	Designated Roth	Traditional (pre-tax)	Roth IRA
Contributions	Designated Roth employee elective contributions are made with after-tax dollars.	Traditional account employee elective contributions are made with pre-tax dollars.	Roth IRA contributions are made with after-tax dollars.
Income limits	No income limitations to participate.	Same as Designated Roth accounts. No income limitations to participate.	Income limits[1]: ▪ Single $165,000 (*modified AGI*) ▪ Married $246,000
Maximum elective contributions	Combined[2] employee elective contributions limited to $23,500 in 2025 (*$31,000 for employees age 50 or over*). Your plan may also allow for a higher catch-up amount of $11,250 for ages 60-63.	Same combined[2] limit as designated Roth accounts.	Contribution limited to $7,000 in 2025 (*$8,000 for employees age 50 or over*).
Taxation of distributions	Distributions of contributions and earnings are generally not taxed provided they are a qualified distribution – the account is held for at least 5 years and distribution is made: ▪ because of disability, ▪ after attainment of age 59½, ▪ or after death.	Distributions of contributions and earnings are subject to federal and applicable state income taxes.	Same as designated Roth accounts. Additionally, qualified distributions are permitted for a first-time home purchase.
Required distributions	No requirement to start taking distributions while owner is alive.		

Roth Q & A

What is a Roth account?

A Roth account has features of both a Roth IRA and a traditional retirement account. Unlike a Roth IRA, a Roth account doesn't limit eligibility based on income. This gives all employees the ability to take advantage of the unique benefits offered by the Roth feature, including the potential for tax-free distributions in the future.

What is the key difference between traditional pre-tax contributions and Roth contributions?

Both types of contributions are withheld from your pay and deposited into your account. The difference is in the way the contributions (and eventual distributions) are taxed.

Traditional account contributions

Contributions are made pre-tax, so you reduce your current income and pay less in taxes now. When the time comes to take distributions from the account, your contributions (and earnings) will be taxed as ordinary income.

Roth account contributions

Although withheld from your pay, your Roth contributions are made after-tax so there is no immediate tax benefit in the year you contribute. Instead, you will realize a tax benefit when you take distributions from your account. Qualified distributions of the amounts you contributed, as well as the earnings on those contributions, will be free from federal (and in most cases) state taxes.

Can I make both traditional pre-tax and Roth contributions in the same year?

If allowed under the terms of your plan, you can make contributions to both a Roth account and a pre-tax account in any proportion you choose. However, the total amount you may contribute in any one year is limited by the IRS. For 2025, this limit is $23,500 (plus an additional $7,500 catch-up contribution if you are age 50 or older).

If I start making Roth contributions and decide I want them treated as pre-tax contributions, can I recharacterize and transfer them to my pre-tax account?

No, this is an irrevocable election made at the time of the contribution. Once they are designated as Roth, they cannot be changed to pre-tax contributions.

Can I make contributions to both a Roth IRA and Roth retirement account?

Yes, provided you are otherwise eligible to make a Roth IRA contribution. Participating in a Roth account does not affect your eligibility to contribute to a Roth IRA and vice versa.

How will contributing to a Roth account affect my current take-home pay?

Although your Roth account contribution is withheld from your paycheck, it is made with after-tax dollars, so it does not decrease your current taxable wages. You will pay current taxes on your higher gross income amount. On the other hand, traditional account contributions are made pre-tax, so they reduce your current taxable compensation, and consequently reduce the amount of income taxes you owe for the current year.

Can I roll an existing Roth IRA into a new Roth retirement account?

Rollovers are not permitted from a Roth IRA to a Roth retirement account.

What is a "qualified" distribution?

In order for a Roth account distribution to be federally tax-free, it must be a qualified distribution. To be considered qualified, a distribution must be made after a 5-year period of participation and either:

- on or after the date you turn age 59½,
- or upon your death or disability.

What happens if I take a distribution from my Roth retirement account that is not a "qualified" distribution?

If the distribution is not "qualified," then the portion of the distribution in excess of your Roth contributions (i.e., your investment earnings) is taxable. In addition, if a distribution is not "qualified," then the distribution of these taxable earnings may be subject to a 10% penalty tax.

The reality...

No one knows what tax rates will be 20, 30 or 40 years from now. This flyer is intended to help you consider your options in choosing to make Roth and/or traditional account contributions to your retirement plan.

If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.

[1] Partial contribution limit may apply to single filers (with MAGI of $150,000 – $165,000) and joint filers (with a MAGI of $236,000 – $246,000) for 2025. See your tax advisor for complete details.

[2] This limitation is by individual, rather than by plan. Although permissible to split the annual employee elective contributions between designated Roth account contributions and traditional pre-tax account contributions, the combination cannot exceed the deferral limit of $23,500 ($31,000 if age 50 or over) for 2025.

The tax information contained herein is general in nature, and is provided for informational purposes only. Neither USI nor its affiliates and/or employees/agents/registered representatives offer legal or tax advice.

USI® CONSULTING GROUP