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WHAT IS A ROTH 401(K)?

While many people are familiar with the benefits of traditional 401(k) plans, others are not as acquainted with Roth 401(k)s.

Since January 1, 2006, employers have been allowed to offer workers access to Roth 401(k) plans. And starting in 2023, retirement rules were updated to allow more retirement plans the ability to offer Roth contributions.[1,2]

As the name implies, Roth 401(k) plans combine features of 401(k) plans with those of a Roth IRA.[3,4]

With a Roth 401(k), contributions are made with after-tax dollars – there is no tax deduction on the front end – but qualifying withdrawals are not subject to income taxes. Any capital appreciation in the Roth 401(k) also is not subject to income taxes.

What to Choose?

For some, the choice between a Roth 401(k) and a traditional 401(k) comes down to determining whether the upfront tax break on the traditional 401(k) is likely to outweigh the back-end benefit of tax-free withdrawals from the Roth 401(k).

Please remember, this article is for informational purposes only and is not a replacement for real-life advice, so make sure to consult your tax professional before adjusting your retirement strategy to include a Roth 401(k).

Often, this isn't an "all-or-nothing" decision. Many employers allow contributions to be divided between a traditional 401(k) plan and a Roth 401(k) plan – up to overall contribution limits.

Considerations

One subtle but key consideration is that Roth 401(k) plans aren't subject to income restrictions like Roth IRAs are. This can offer advantages to high-income individuals whose Roth IRA has been limited by these restrictions. (See accompanying table.)

	TRADITIONAL 401(K)	ROTH 401(K)	ROTH IRA
Contributions	Contributions are made with pretax dollars	Contributions are made with after-tax dollars	Contributions are made with after-tax dollars
Income Limits	No income limits to participate	No income limits to participate	For 2023, contribution limit is phased out between $218,000 and $228,000 (married, filing jointly), and between $138,000 and $153,000 (single filers)
Maximum Elective Contribution*	Contributions are limited to $22,500 in 2023, ($30,000 for those over age 50)*	Contributions are limited to $22,500 in 2023, ($30,000 for those over age 50)*	Contributions are limited to $6,500 for 2023, ($7,500 for those over age 50)
Taxation of Withdrawals	Qualifying withdrawals of contributions and earnings are subject to income taxes	Qualifying withdrawals of contributions and earnings are not subject to income taxes	Qualifying withdrawals of contributions and earnings are not subject to income taxes
Required Distributions	In most cases, distributions must begin no later than age 73	In most cases, distributions must begin no later than age 73	There is no requirement to begin taking distributions while owner is alive

* This is an aggregate limit by individual rather than by plan. The total of an individual's aggregate contributions to his or her traditional and Roth 401(k) plans cannot exceed the deferral limit – $22,500 in 2023 ($30,000 for those over age 50).
Source: IRS.gov, 2023

Roth 401(k) plans are subject to the same annual contribution limits as regular 401(k) plans – $22,500 for 2023; $30,000 for those over age 50. These are cumulative limits that apply to all accounts with a single employer; for example, an individual couldn't save $22,500 in a traditional 401(k) and another $22,500 in a Roth 401(k).[5]

Another factor to consider is that employer matches are made with pretax dollars, just as they are with a traditional 401(k) plan. In a Roth 401(k), however, these matching funds accumulate in a separate account, which will be taxed as ordinary income at withdrawal.

Setting money aside for retirement can be part of a sound personal financial strategy. Deciding whether to use a traditional 401(k) or a Roth 401(k) often involves reviewing a wide range of factors. If you are uncertain about what is the best choice for your situation, you should consider working with a qualified tax or financial professional.

Citations

1. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth 401(k) distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals also can be taken under certain other circumstances, such as a result of the owner's death or disability. Employer matches are pretax and not distributed tax-free during retirement. Once you reach age 73, you must begin taking required minimum distributions.

2. Forbes.com, January 5, 2023

3. In most circumstances, you must begin taking required minimum distributions from your 401(k) or other defined contribution plan in the year you turn 73. Withdrawals from your 401(k) or other defined contribution plans are taxed as ordinary income, and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

4. Roth IRA contributions cannot be made by taxpayers with high incomes. In 2023, the income phaseout limit is $153,000 for single filers, $228,000 for married filing jointly. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals also can be taken under certain other circumstances, such as a result of the owner's death or disability. The original Roth IRA owner is not required to take minimum annual withdrawals.

5. IRS.gov 2023

WHAT'S NEW FOR SOCIAL SECURITY?

Whether you're applying for Social Security in the future or currently receiving benefits, there are some important changes to earnings limits, Medicare premiums, and other differences to keep in mind. Ready to learn more? Read on.

RETURNS (AS OF 12/31/23)

ASSET CLASS	INDEX	4 WEEK	YTD	1 YEAR	3 YEAR
US Large Cap	S&P 500 TR	4.42%	24.23%	24.23%	8.29%
US Large Cap	Dow Jones TR	4.84%	13.70%	13.70%	7.19%
US Small Cap	Russell 2000 TR	12.05%	15.09%	15.09%	0.87%
International	MSCI EAFE NR USD	5.24%	15.03%	15.03%	1.36%
Taxable Bonds	Barclays US Agg Bond TR	3.69%	5.65%	5.65%	-3.36%

Ready for a Cost-of-Living (COLA) increase?

That's right! Due to an increase in the Consumer Price Index (CPI-W), the Social Security Administration (SSA) has made a 3.2-percent COLA Adjustment.[1]

What about Tax Caps?

Employees everywhere will be happy to hear that the cap on wages subject to Social Security withholdings has increased to $168,600.[1]

Any change to earning limits?

If a working individual starts receiving Social Security payments before full retirement age, the Social Security Administration will deduct $1 in benefits for each $2 that person earns above an annual limit. In 2024, the income limit is $22,320.[1]

During the year in which a worker reaches full retirement age, Social Security benefit reduction falls to $1 in benefits for every $3 in earnings. For 2024, the limit is $59,520 before the month the worker reaches full retirement age.[1]

Are Medicare Part B Premiums Affected?

Social Security recipients will see a $9.80 increase in Part B premiums. But first-time enrollees and Medicare beneficiaries who earn $206,000 or more in 2024 may pay a higher premium.[2]

How much do I need to earn for one Social Security "credit"?

For 2024, you'll need to earn $1,730 to earn one "credit" toward Social Security and Medicare, up from $1,640 in 2023. What remains the same? You can only earn four credits each year, and you must earn at least 40 credits in order to qualify for benefits.[3]

For many, Social Security may be an important source of income during their "second act." If changes to Social Security give you pause or make you question if you are making the most of your benefits, a qualified financial professional may be just the person you need to help you realize your retirement strategy's full potential.

Citations

1. SSA.gov, 2023

2. CMS.gov, 2023

3. SSA.gov, 2023

MAKING A CHARITABLE CONTRIBUTION

Why sell shares when you can gift them? If you have appreciated stocks in your portfolio, you might want to consider donating those shares to charity rather than selling them.

Donating appreciated securities to a tax-qualified charity may allow you to manage your taxes and benefit the charity. If you have held the stock for more than a year, you may be able to deduct from your taxes the fair market value of the stock in the year that you donate. If the charity is tax-exempt, it may not face capital gains tax on the stock if it sells it in the future.[1]

Keep in mind this article is for informational purposes only. It's not a replacement for real-life advice. Make sure to consult your tax and legal professionals before modifying your gift-giving strategy.

There are several reasons to consider donating highly appreciated stock to a tax-exempt charity. For example, you may own company stock and have the opportunity to donate some shares. There also are potential tax benefits to consider if you donate appreciated securities that you have owned for at least one year.

If you sell shares of appreciated stock from a taxable account and subsequently donate the proceeds from the sale to charity, you may face capital gains tax on any gain you realize, which effectively trims the benefit of cash donation.[1]

When is donating cash a choice to consider? If you provide the charity with a cash gift, there may be some limitations. Cash gifts are generally deductible up to 50% of adjusted gross income. As an example, if a donor in the top 37% federal tax bracket gives a 501(c)(3) non-profit organization a gift of $5,000, the net may be $3,150 with $1,850 realized in tax savings. A donor should also need to consider state taxes in addition to federal.[2]

If you donate shares of depreciated stock from a taxable account to a charity, you can only deduct their current value, not the value they had when you originally bought them.[1]

Remember the tax rules for charitable donations. If you donate appreciated stock to a charity, you may want to review IRS Publication 526, Charitable Contributions. Double-check to see that the charity has non-profit status under federal tax law, and be sure to record the deduction on a Schedule A that you attach to your 1040.[1]

If your contribution totals $250 or more, the donation must be recorded – that is, the charity needs to give you a written statement describing the donation and its value and whether it is providing you with goods or services in exchange for it.[2]

If your total deduction for all non-cash contributions in a tax year exceeds $500, then complete and attach Form 8283 (Noncash Charitable Contributions) to your 1040 when filing. If you donate more than $5,000 of property to a charity, you will need to provide a letter from a qualified appraiser to the charity (and, by extension, the IRS) stating the monetary value of the gift(s).[2]

Gifting cash or other assets to an organization is a wonderful opportunity. But keep in mind that tax rules are constantly being adjusted, and there's a possibility that the current rules may change. Make certain to consult your tax and legal professionals before starting a new gifting strategy.

Citations

1. IRS.gov, 2023
2. IRS.gov, 2023

HOW BOOMERS AND MILLENNIALS DIFFER

We are in the midst of an unprecedented transfer of wealth, with trillions of dollars being moved from one generation to the next. This transfer challenges many commonly held notions as new values and interests become more prominent. In short, the economy is changing, and while some of these new practices might raise an eyebrow or two, not all of these ideas are without merit.

For someone from the boomer generation, it might be easy to become upset with or confused by millennial's' differing points of view. However, taking note of the differences between the two generations can foster better communication and understanding.

The younger generations, including millennials, Gen Z, zoomers, and whatever else you call them, have a different perspective on wealth than their forebears. As these generations reach middle age, an interesting trend has emerged in emphasizing YOLO (You Only Live Once). Now that these generations have the steering wheel, they seem to be stepping on the gas and running full force into exciting, once-in-a-lifetime experiences.

At this point, it bears looking at the "why" of the YOLO economy. In other words, why do these forty-somethings spend as if there is no tomorrow?

Less money: Your average 40-year-old earns about $49,000 a year. While this is more than the 40-year-olds of the previous generation, the rising cost of living has taken a significant bite out of that difference.[1]

Less control: This generation also holds a smaller piece of the pie. While the post-WWII cohort controlled 22 percent of wealth in the United States once it reached middle age, millennials only controlled seven percent.[2]

Perhaps the biggest factor is less marriage: Middle-aged millennials are less likely to be married or start families than prior generations. Only 44 percent of millennials have walked down the aisle by age 40, compared to 61 percent for Generation X and 53 percent for baby boomers. Only 30 percent of millennials live with a spouse and at least one child, far lower than prior generations. This means that the expenses that come with a family are also off the table. If you aren't married, the costs of a possible divorce are simply gone. Without children, you don't have to pay for school clothes each fall, braces, and everything else that comes with helping a child grow up.[3]

The result is a very different economic picture for today's middle-aged individuals. Consequently, all of these differences have informed a different set of values. Among millennials, 78 percent prefer spending money on experiences rather than material things. While prior generations may have placed more importance on things like home ownership, car purchases, and investments, millennials are looking at a different future with disparate priorities. For these reasons, spending on travel, exclusive events, and entertainment has become a priority.[4]

Of course, many boomers today find themselves in similar situations as middle-aged millennials. Most of the boomer generation is in their retirement, with their children growing and perhaps finding themselves needing further stimulation in their golden years. While many keep working part-time, start businesses, or help their families with childcare, there may be a pang of that YOLO spirit in them as well, and a similar yearning for adventure.

And for good reason. While their middle-age experiences may have been very different, there is no better time than now to take that big trip you've always thought about. Maybe it's time to splurge on those expensive concert tickets or challenge yourself through a special adventure that always seemed impractical, like learning to SCUBA dive or skydive.

This might be too far for some, but it's important to remember that wealth can serve us in two ways: providing security and allowing us to enjoy life. If you've been working hard with your financial professionals to pursue that security, maybe it's time to talk to them about your need for enjoyment.

It's also possible that the younger people in your family have done too much YOLO and not enough saving and investing. A conversation with a trusted financial professional may help them understand how to balance living for today and preparing for tomorrow.

Citations

1. Businessinsider.com, February 22, 2023
2. Fortune.com, March 22, 2023
3. Pewresearch.org, October 19, 2023
4. Harris Interactive, October 19, 2023

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