

Pretax vs. Roth:

What's the Difference, and Which One Is Better for You?

Should you pay taxes now or later? That's really what the pretax vs. Roth decision comes down to. The choice you make today can have a significant impact on how much you keep in retirement. Traditional retirement plans and IRAs offer two common approaches, and understanding the differences is key to making an informed decision.

Understanding Your Two Options

PRETAX CONTRIBUTIONS	ROTH CONTRIBUTIONS
<p>Pretax contributions are made before income taxes are withheld, reducing your taxable income in the year you make them. Contributions to a traditional IRA or 401(k) grow on a tax-deferred basis. You won't owe taxes on contributions or earnings until you take money out, at which point withdrawals are taxed as ordinary income.</p> <ul style="list-style-type: none"> • Tax break today • Tax-deferred growth • Subject to RMD rules beginning at age 73 (with exceptions) 	<p>Roth contributions are made with after-tax dollars, meaning you've already paid income tax on the money before it goes in. The payoff comes later: funds grow tax-free, and qualified withdrawals in retirement are completely tax-free. To access earnings tax-free, you generally need to be at least 59½ and have held the account for at least five years.</p> <ul style="list-style-type: none"> • Tax-free growth • Tax-free withdrawals • No RMDs (Roth IRA)

Key Differences at a Glance

FEATURE	PRETAX	ROTH
Tax on contributions	Deducted now, reducing taxable income	Paid now with after-tax dollars
Tax on withdrawals	Taxed as ordinary income	Tax-free (if qualified)
Growth	Tax-deferred	Tax-free
RMDs	Generally required starting at age 73 (plan rules may allow later)	Not required for Roth IRA
Best suited for	Higher earners today expecting lower income in retirement	Earlier-career savers expecting higher taxes later

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Making the Right Choice for Your Situation

The pretax vs. Roth decision isn't one-size-fits-all. It depends on where you are today, where you expect to be in retirement, and how you want to manage taxes across your lifetime. Many investors benefit from using both.

When Each Option Makes Sense

CONSIDER PRETAX IF...

- You're currently in a high tax bracket and expect to be in a lower one in retirement
- You want to reduce your taxable income now, for example to stay below a certain tax threshold or reduce exposure to Medicare surcharges
- You expect your income to drop meaningfully after you stop working

CONSIDER ROTH IF...

- You're earlier in your career and currently in a lower tax bracket than you expect to be at retirement
- You want tax-free income in retirement to complement other taxable sources like Social Security or pension payments
- You want flexibility, as Roth IRAs have no lifetime RMDs and allow contributions to be withdrawn at any time without tax or penalty

Note on Roth IRA eligibility: For 2026, the income phase-out range runs from \$153,000 to \$168,000 for single filers, and from \$242,000 to \$252,000 for married couples filing jointly. If your income falls above those ranges, you are not eligible to contribute directly, but a backdoor Roth conversion may still be an option worth exploring with your advisor.

2026 Contribution Limits

IRA (TRADITIONAL OR ROTH)

Under age 50	\$7,500
Age 50+ (incl. \$1,100 catch-up)	\$8,600

401(K) (TRADITIONAL OR ROTH)

Under age 50	\$24,500
Age 50–59 and 64+	\$32,500
Age 60–63 (super catch-up)	\$35,750

IRA limits are per person, not per household. Sourced from IRS Notice 2025-67, announced November 13, 2025.

New for 2026: If you are age 50 or older and earned more than \$150,000 in FICA wages in 2025, your catch-up contributions to a workplace plan must be made as Roth (after-tax) contributions. This is a meaningful change for higher earners. Confirm the details with your HR department or plan administrator.

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