Vanguard®

You can choose when to save on taxes

When you join your employer's retirement plan, you can choose to make pre-tax contributions, Roth 401(k) after-tax contributions, or a combination of the two. Each offers a valuable tax advantage:

- Pre-tax contributions lower your taxable income, so you avoid taxes today. But you don't avoid taxes forever. When you make a withdrawal, you'll owe ordinary income taxes on your contributions and any earnings.*
- Roth contributions don't lower your taxable income, so you pay taxes today. But you can make tax-free withdrawals of both your contributions and any earnings, provided you are at least age 59½ and made your first Roth contribution at least five years earlier.*

Your plan also offers traditional after-tax contributions; taxes on any earnings are postponed until you make a withdrawal. But you may want to consider these contributions only after you have made full use of pre-tax or Roth contributions, given their tax advantages.

Could you benefit from making Roth contributions? Keep reading to find out.

***Taxes:** Taking money from your retirement account can affect how much you'll have to pay in taxes. You'll owe taxes on pre-tax money. You won't owe taxes on Roth earnings as long as you are age 59½ or older and it's been at least five years since your first Roth contribution. If required by law, Vanguard will withhold some taxes for you. You may need to pay a 10% federal penalty tax if you take money out early.

Take action today

Once you've decided which type of contribution to make, indicate your choice when you join your employer's plan. But don't delay. Joining your plan as soon as possible is one of the best moves you can make for your future.

Need help?

You can speak with a Vanguard Participant Services associate by calling 800-523-1188 Monday through Friday from 8:30 a.m. to 9 p.m., Eastern time.

Who might benefit from Roth contributions

Who	Why
You're financially well-prepared for retirement (high savings, good benefits).	Chances are you'll be in the same or a higher tax bracket in retirement. Roth savings would be exempt from taxation.
You contribute the maximum to the plan.**	Switching to Roth contributions would increase your tax-advantaged savings. For example, if you contribute $20,500 on a pre-tax basis, you will owe taxes on this amount, plus any earnings, in retirement. If you contribute $20,500 on a Roth basis instead, all of it will be tax-free in retirement.
Your income prevents you from contributing to a Roth IRA.***	You can obtain the advantages of a Roth IRA within your 401(k) plan, which has no income restrictions comparable to those of the Roth IRA.
You don't earn a lot today—but just wait.	Your career is just getting started. You expect your income—and tax rate—to rise in the years to come.
You pay taxes at a low rate today (10% or 12%).	Making Roth contributions would cost you little today and could result in tax savings in retirement.

**The maximum you can contribute to the plan is $20,500 in 2022, or $27,000 if you're age 50 or older and your plan allows catch-up contributions. The limits apply to the total of pre-tax and Roth contributions.

***To contribute to a Roth IRA, your modified adjusted gross income in 2022 cannot exceed $214,000 for married taxpayers filing jointly or $144,000 for single filers.

Who might not benefit from Roth contributions

Who	Why
You're behind on saving and expect Social Security to be the mainstay of your retirement.	Chances are your income will fall in retirement. Consequently, you may be in a lower tax bracket.
Your pay spikes, thanks to big commissions or bonuses.	Your tax rate may be higher this year than in retirement. So you may be better off deferring taxes now with pre-tax contributions and paying at a lower rate later.
You have children and a family income generally between $20,000 and $55,000, and receive the earned income tax credit or the additional child tax credit.	Making Roth contributions would raise your taxable income and could cost you this valuable tax credit. This credit is more valuable than the tax benefits of the Roth option would be to you.

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Participant Education

P.O. Box 2900
Valley Forge, PA 19482-2900

Connect with Vanguard®
vanguard.com/retirementplans > 800-523-1188

Whenever you invest, there's a chance you could lose the money.

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