

Why Saving Roth May Make Sense



Timothy Shirk CFP®
timothy.shirk@francisway.com
Francis LLC



All About Roth Accounts

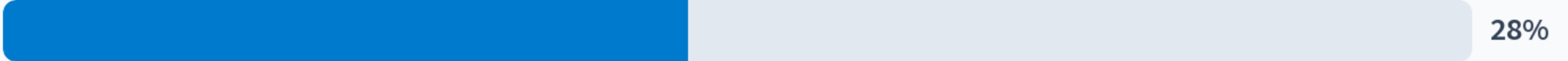
1. How Roth is Different
2. Common Misconceptions
3. Which is Better?

Are you currently saving in your workplace retirement plan with Roth dollars?

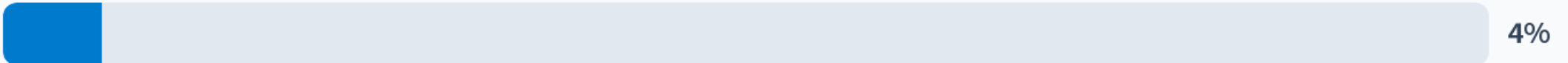
A Yes



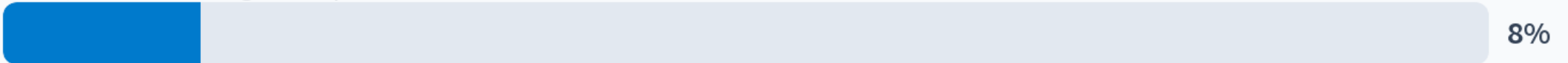
B No, I am saving pre-tax



C No, I make too much to save in Roth



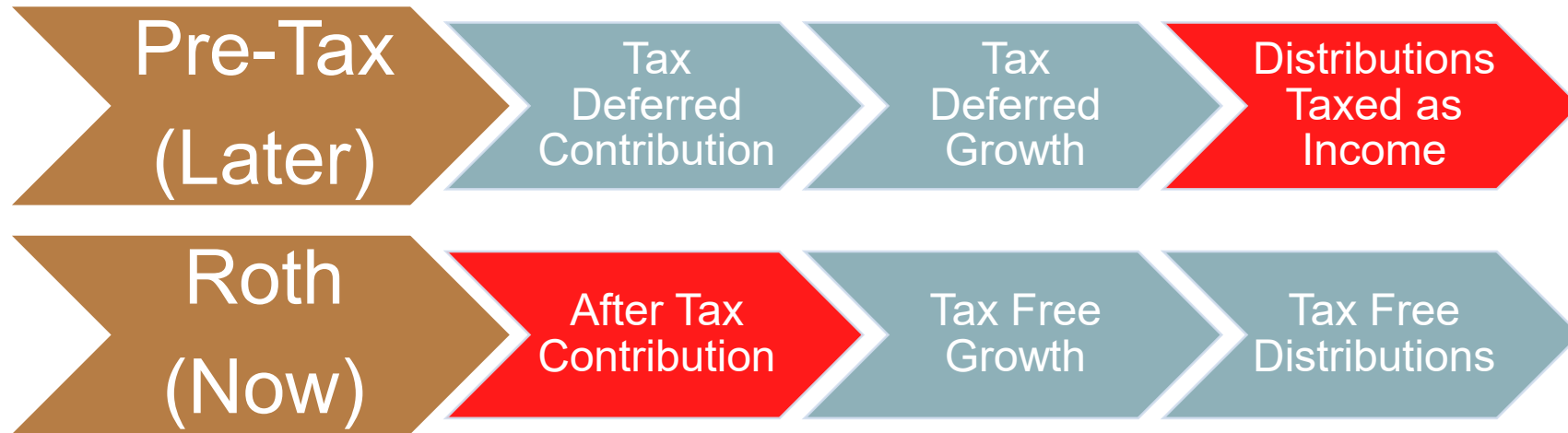
D No, I am not saving in the plan at this time



Pay Your Taxes Later – Pre-tax 403(b)




Pay Your Taxes Now – Roth 403(b)!



Example

| | Roth | Pretax |
|-----------------------------|---------|---------|
| Paycheck | \$1,000 | \$1,000 |
| Saving 10% | \$100 | \$100 |
| Taxable income | | |
| Taxes 20% | | |
| Take home pay (after taxes) | | |

Earnings Statement 

CO. FILE DEPT. CLOCK NUMBER
ABC 12345 123456 12345 09000000 1

ACME SUPPLIES CORP.
475 KNAPP AVENUE
ANYTOWN, USA 10101

Social Security Number: 999-99-9999
Taxable Marital Status: Married
Exemptions/Allowances:
Federal: 3, \$25 Additional Tax
State: 2
Local: 2

Period ending: 7/18/2008
Pay date: 7/25/2008

JANE HARPER
101 MAIN STREET
ANYTOWN, USA 12345

| Earnings | rate | hours | this period | year to date |
|------------------|-------|-------|------------------|--------------|
| Regular | 10.00 | 32.00 | 320.00 | 16,640.00 |
| Overtime | 15.00 | 1.00 | 15.00 | 780.00 |
| Holiday | 10.00 | 8.00 | 80.00 | 4,160.00 |
| Tuition | | | 37.43* | 1,946.80 |
| Gross Pay | | | \$ 452.43 | 23,526.80 |

| Deductions | Statutory | this period | year to date |
|---------------------|-----------|------------------|--------------|
| Federal Income Tax | - 40.60 | - 40.60 | 2,111.20 |
| Social Security Tax | - 28.05 | - 28.05 | 1,458.60 |
| Medicare Tax | - 6.56 | - 6.56 | 341.12 |
| NY State Income Tax | - 8.43 | - 8.43 | 438.36 |
| NYC Income Tax | - 5.94 | - 5.94 | 308.88 |
| NY SUIVSDI Tax | - 0.60 | - 0.60 | 31.20 |
| Other | | | |
| Bond | - 5.00 | - 5.00 | 100.00 |
| 401(k) | - 28.85* | - 28.85* | 1,500.20 |
| Stock Plan | - 15.00 | - 15.00 | 150.00 |
| Life Insurance | - 5.00 | - 5.00 | 50.00 |
| Loan | - 30.00 | - 30.00 | 150.00 |
| Adjustment | | | |
| Life Insurance | | + 13.50 | |
| Net Pay | | \$ 291.90 | |

* Excluded from federal taxable wages
Your federal wages this period are \$386.15

Other Benefits and Information

| Information | this period | total to date |
|-----------------|-------------|---------------|
| Group Term Life | 0.51 | 27.00 |
| Loan Amt Paid | | 840.00 |
| Vac Hrs | | 40.00 |
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| Title | Operator | |

Important Notes
EFFECTIVE THIS PAY PERIOD YOUR REGULAR HOURLY RATE HAS BEEN CHANGED FROM \$8.00 TO \$10.00 PER HOUR.
WE WILL BE STARTING OUR UNITED WAY FUND DRIVE SOON AND LOOK FORWARD TO YOUR PARTICIPATION.

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ANYTOWN, USA 10101

Pay to the order of: **JANE HARPER**
This amount: **TWO HUNDRED NINETY-ONE AND 90/100 DOLLARS**


\$291.90

SAMPLE NON-NEGOTIABLE VOID VOID VOID

THE ORIGINAL DOCUMENT HAS A REFLECTIVE WATERMARK ON THE BACK.

Example

| | Roth | Pretax |
|-----------------------------|---------|---------|
| Paycheck | \$1,000 | \$1,000 |
| Saving 10% | \$100 | \$100 |
| Taxable income | \$1,000 | \$900 |
| Taxes 20% | | |
| Take home pay (after taxes) | | |

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ABC 126543 123456 12345 09000000 1

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BANK NAME
STREET ADDRESS
CITY STATE ZIP

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Saving Roth in Your Workplace Retirement Plan

- 403(b) savings limits apply: in 2025, \$23,500 or \$31,000 if age 50 or older (those age 60-63 can save another \$3,750)
- Employer contributions still made in pre-tax dollars
- No earnings limits apply

All About Roth Accounts

1. How Roth is Different
2. Common Misconceptions

Top 4 Roth 403(b) Misconceptions

1. My **rate of return** could be different because I am saving less
2. I **can't split contributions** between Roth and pre-tax
3. **Roth 403(b) = Roth IRA**

Misconception #1: Rate of Return



Whether you contribute Roth or pre-tax (i.e., traditional), you are:

- saving the same amount
- investing in the same funds

Misconception #2: I can't split my contributions



You can contribute in one of three combinations:

1. All pre-tax
2. All Roth
3. A combination of Roth and pre-tax

Chose Your Tax Treatment

- Start saving right away in the Tax Deferred Account or the Roth 403(b)



Capture Your Match

- Start saving right away in the Tax Deferred Account or the Roth 403(b)
- After one year, elect 4% in Contributory Retirement Account



Capture Your Match

Start saving right away in the Tax Deferred Account or the Roth 403(b)

After one year, elect 4% in Contributory Retirement Account

- Save 1%, get a 1.5% match
- Save 2%, get a 3% match
- Save 3%, get a 4% match
- Save 4%, get a 5% match

After one year, receive the basic company contribution

- 1 year of service, receive 1% of pay
- 2 years of service, receive 2% of pay
- 3 years of service, receive 3% of pay
- 4 years of service, receive 4% of pay
- 5 years of service, receive 5% of pay

Consider Converting To Roth

- Start saving right away in the Tax Deferred Account or the Roth 403(b)
- After one year, elect 4% in Contributory Retirement Account
- Consider converting Contributory Retirement Account contributions to Roth



Misconception #3: Roth 403(b) = Roth IRA



Workplace Roth accounts are different than Roth IRAs. You can save in both.

Advantages and Disadvantages

Roth 403(b)

Lower Cost

Higher Contribution Limits

No Income Restrictions

Automated Approach

Roth IRA

Vendor Selection

Investment Flexibility

Flexible Distributions



Low-Cost Providers



All About Roth Accounts

1. How Roth is Different
2. Common Misconceptions
3. Which is Better?

Who Benefits from the Roth 403(b)?



Those with time for tax-free compounding

Who Benefits from the Roth 403(b)?



Those who think taxes will be the same or higher in retirement.

Who Benefits from the Roth 403(b)?



Those who want to control tax level after retirement.

Who
Benefits
from the
Roth
403(b)?



AFFORDABLE CARE ACT

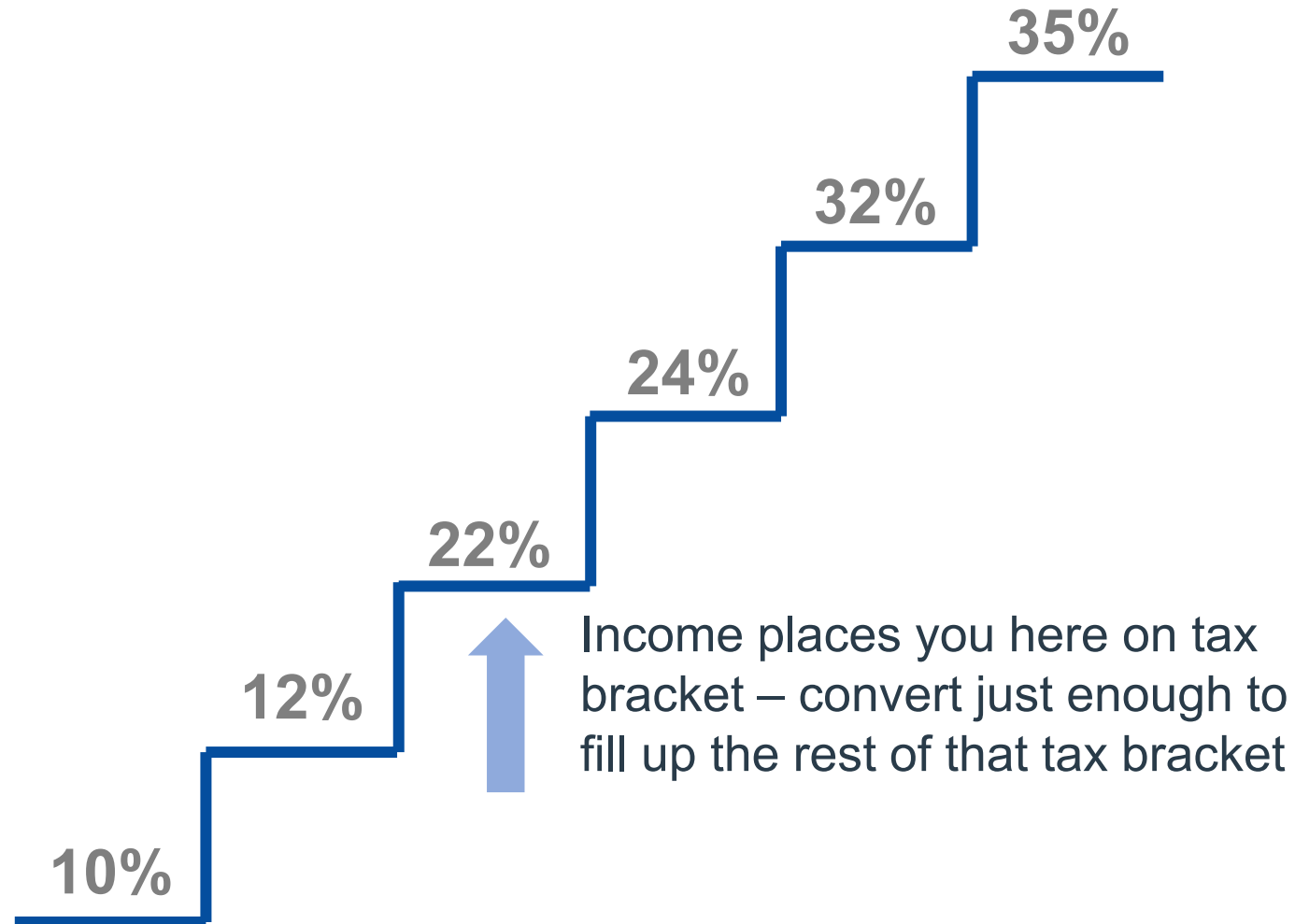
Those who might use the
National Healthcare Exchange
for health insurance.



TAX

Roth withdrawals
are not considered
taxable income in
retirement

Fill Your Tax Bracket

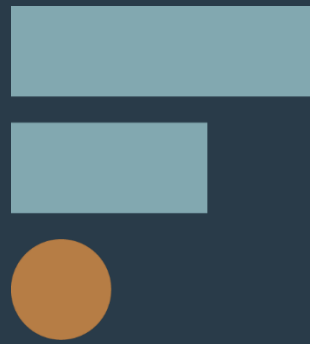


Having Both Makes Sense

- Having both allows you to control your taxable income in retirement
- Stanford's contributions are pre-tax
- Beneficiaries inherit Roth assets tax-free
- Beneficiaries must pay taxes on pre-tax assets

Important Note!

Unlike the pre-tax 403(b), growth on your Roth account is taxed and penalized until after 59.5 years old, AND 5 years from first contribution.



FRANCIS

Thank you!

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Francis LLC