TaxBrief
Keeping you informed

Maximize Your Roth 401k

A Roth 401(k) can be one of the most powerful tools in your retirement arsenal. With new contribution limits and expanded options for 2025, now is the perfect time for us to review your retirement savings strategy together.

Unlike a traditional 401(k), contributions to Roth 401(k) are made after tax. Qualified withdrawals in retirement (when you're over 59½) are tax-free. This feature provides unique planning opportunities to manage taxes, increase tax-free income and create a flexible retirement income plan. But many taxpayers aren't fully aware of how Roth 401(k)s work, how they compare to other retirement accounts or how to use them strategically once they retire.

This newsletter breaks down everything you need to know about Roth 401(k)s, including their benefits, withdrawal rules, required minimum distributions and tips to optimize your plan.

What is a Roth 401(k)?

A Roth 401(k) is an employer-sponsored retirement account that combines traditional 401(k) features and a Roth IRA. A Roth 401(k) is a type of employer-sponsored retirement plan that allows you to make after-tax contributions from your paycheck. Key characteristics include:

- **Contributions:** Made with after-tax dollars
- **Growth:** Investment earnings grow tax-free
- **Withdrawals:** Qualified distributions in retirement are entirely tax-free
- **Contribution limits:** In 2025, you can contribute up to $23,500 if under age 50 or $30,500 if 50 or older, including catch-up contributions (limits may be adjusted for inflation each year). (Note the $23,500 is the total amount that can be contributed between Roth and Traditional 401k accounts)

Example: If you are 45 years old, you can contribute up to $23,500. If you are 52, you can contribute $23,500 + $7,500, for a grand total of $31,000. If you are 61, you may be able to contribute $11,250. Therefore, the contributions are going to be $23,500 + $11,250 = $34,750.

Qualified withdrawals in retirement, including both your contributions and any investment earnings, are completely tax-free.

Roth 401(k) vs. Traditional 401(k)

Tax treatment of contributions: Traditional 401(k) contributions are pre-tax, reducing current taxable income, but withdrawals are fully taxable. Roth 401(k) contributions do not lower your taxable income today but offer tax-free withdrawals later.

Taxes in retirement: Roth 401(k) withdrawals are tax-free if qualified; traditional 401(k) withdrawals are taxed as ordinary income.

Required minimum distributions (RMDs): Both types of accounts used to require RMDs starting at age 73. However, beginning in 2024, RMDs are no longer required from Roth 401(k) accounts for plan participants, just like Roth IRAs. (Note: Some employer plans may still enforce RMDs unless you roll your Roth 401(k) into a Roth IRA.)

How much can I contribute annually?

Higher Limits: The IRS increased the basic and catch-up 401K contribution limits for 2025.

Catch-Up for Ages 50 and Older: If you are over 50, you can contribute an additional $7,500.

Special Catch-Up for Ages 60-63: If you are age 60, 61, 62, or 63 in 2025, you can make an even larger catch-up contribution of $11,250.

Roth Catch-Up Requirement: If your wages exceed $145,000 in the prior year, all catch-up contributions must be made as Roth (after-tax) contributions.

When are Roth 401(k) withdrawals qualified?

For Roth 401(k) withdrawals to be qualified (tax-free), you must meet these two conditions:

1. The withdrawal must occur at least five tax years after the year you made your first Roth 401(k) contribution.
2. You must be age 59½ or older, permanently disabled or deceased.

If both conditions are satisfied, all contributions and earnings can be withdrawn tax and penalty-free.

Nonqualified withdrawals

If you withdraw earnings before age 59½ or before meeting the five-year rule, you may owe income tax on the earnings portion and a 10% early withdrawal penalty. Keep in mind that your contributions can always be withdrawn tax-free since you have paid taxes already.

Required minimum distributions (RMDs)

Thanks to the SECURE 2.0 Act, effective beginning in 2024, plan participants' Roth 401(k) accounts are exempt from RMDs, meaning you can let your Roth 401(k) balance continue to grow tax-free throughout retirement, just like a Roth IRA. You won't need to take any distributions.

Tax-free retirement income

Maximizing your Roth 401(k) contributions is one of the best ways to build tax-free income for your future. With higher limits and new options for 2025, now is the time to review your plan and make any necessary changes.

Need help deciding what's right for you?

Contact our office today! We can help you:

- Review your current retirement savings
- Calculate your optimal contribution amount
- Coordinate your Roth 401(k) with other retirement accounts
- Plan for tax efficiency in retirement

Don't miss out on the opportunity to grow your wealth tax-free. Reach out to us to schedule your retirement review!

Q: Can I contribute to both a Roth 401(k) and a traditional 401(k)?

A: Yes! You can split your contributions any way you like, as long as the total does not exceed the annual limit.

Q: What if I leave my job?

A: You can roll your Roth 401(k) balance into a Roth IRA or another employer's Roth 401(k) plan, keeping your tax-free growth.

Q: Are there required minimum distributions (RMDs)?

A: No, Roth 401(k)s are not subject to RMDs like traditional 401(k) retirement accounts.