Fisher Investments®
401(k) Solutions

TAX DIVERSIFICATION CASE STUDY

How to use a Roth 401(k) to boost retirement income

Retirement Income

$1.8 MM more retirement income

AT A GLANCE

Situation

- A 30-year-old employee wants to begin saving for retirement.
- She has the option to contribute to her employer's 401(k) which includes a Roth 401(k) option.
- She is uncertain about how to allocate her contributions.

Benefits

- An opportunity to reduce taxes paid on retirement income.
- More income in retirement without having to increase contributions during her working years.
- The potential to avoid mandatory required minimum distributions (RMDs) in retirement.

CHALLENGE

Consider a 30-year-old employee who wants to begin saving for retirement. Her employer sponsors a 401(k) that includes a Roth option so she has a choice to make in terms of making pre-tax or after-tax contributions to her plan.

A traditional 401(k) and a Roth 401(k) are similar in many ways. They're both employer-sponsored retirement plans that are funded via payroll deductions. They also set the same personal contribution limits – in 2022 this is $20,500 for participants under 50 and $27,000 for participants over 50.

However, a traditional 401(k) and Roth 401(k) contributions are taxed differently. The traditional 401(k) allows pre-tax contributions and qualifying withdrawals are taxed as ordinary income in retirement. A Roth 401(k) allows after-tax contributions and qualifying withdrawals are not taxed at all in retirement.

How does she choose where to contribute?

OBJECTIVE

Deciding how to contribute to an employer's 401(k) plan is a major financial decision for plan participants. Making the best decision requires partnering with a 401(k) plan advisor that provides proactive one-on-one guidance to help each participant make the best decision for their situation.

While the company offers a 401(k) plan with a Roth option, the existing plan advisor does not provide one-on-one guidance. As a result, plan participation is low and most participants don't understand the difference between a Roth 401(k) and a traditional 401(k). The plan sponsor wants to upgrade the level of service so participants receive personalized guidance to guide them through these major financial decisions.

SOLUTION

The plan sponsor hires Fisher Investments 401(k) Solutions as their plan advisor. During the one-on-one enrollment meetings Fisher conducts with each plan participant, the retirement counselor educates the 30-year-old employee about the benefits of an after-tax contribution vs a tax-deferred contribution.

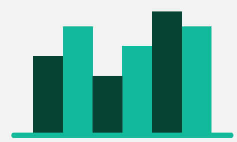
As a result of this education, the employee models out two savings scenarios. One scenario where she puts 100% of her contributions into a traditional 401(k) and another where she contributes 100% to a Roth 401(k). For each scenario she assumes:

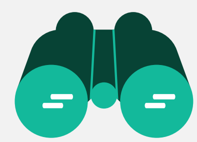
- Annual personal contributions up to the 2022 IRS maximum[1] from age 30 to 64 years old.
- For the accumulation phase, she assumes a starting salary of $100,000, 3% increase each year until age 64 and investment growth of 7% net of investment fees.
- For the de-accumulation phase, she assumes withdrawals start at $160,000 at age 65 and increase 3% each year from ages 66 to age 90. Income from Social Security and other sources are excluded.
- Tax rates during both phases are at the 2022 federal rates for married filing jointly and excludes state taxes.

At age 90, which scenario resulted in fewer taxes and more lifetime net income? See the chart on the next page.

$1.8 MM
more retirement income

-89%
fewer taxes on 401(k) contributions & withdrawals





RESULTS

- **More retirement income**
  Fisher provides guidance to help a plan participant create a strategy that can provide $1.8MM more income in retirement without increasing contributions.
- **Fewer taxes**
  The Roth 401(k) savings scenario results in 89% fewer taxes on retirement contributions and withdrawals, which is a savings of ~$1.7MM over the lifetime of the investment.
- **More confidence**
  The Fisher retirement counselor educates a participant on the pros and cons of after-tax and pre-tax contributions, which resultes in greater knowledge and confidence in a successful retirement.

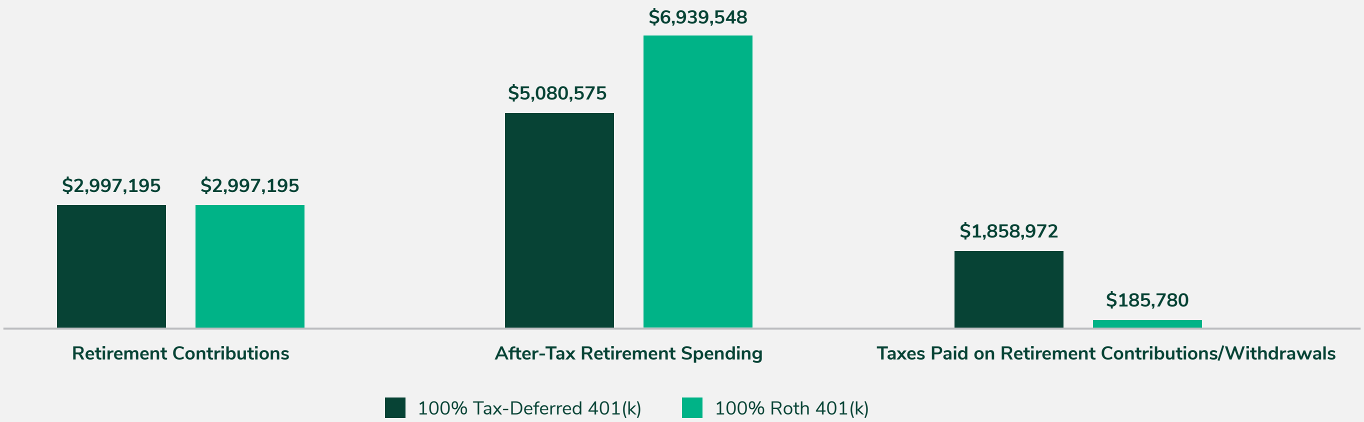
[1]2022 employee deferral contribution limit into a Traditional 401(k) and Roth 401(k) is $20,500 <50 years and $27,000 > 50 years.

ROTH 401(K) CASE STUDY

Participant Age: 30
Contribution Period: Ages 30-64
Annual Contribution: $20.5k <50 years/$27K >50 Years

Annual Investment Growth Rate: 7%
Withdrawal Period: Ages 65-90

100% Traditional 401(k) vs 100% Roth 401(k) Contributions Strategy



Traditional 401(k) Tax Rate During Withdrawal Period (age 65-90): 24% ages 65-83. 32% ages 84-90.

Roth Tax Rate During Contribution Period (Age 30-64): 22% ages 30-52. 24% ages 53-64.

Note: A Roth strategy may not be best for all plan participants which is why it is important to hire a plan advisor that provides one-on-one guidance for the plan participant.

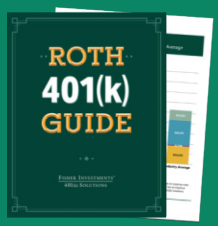
The participant decides to implement a 100% Roth 401(k) contribution strategy because it can provide her $1.8MM more in after-tax retirement spending and –89% fewer taxes paid on the the retirement contributions and withdrawals.

HELPFUL RESOURCES

Roth 401(k) Guide
See how plan participants can leverage a Roth 401(k) feature to pay fewer taxes and increase retirement income.

Tax Treatment Chart
Compare how different types of retirement accounts are taxed.

Tax Diversification
What plan participants need to know about tax diversification to reduce taxes and increase retirement income.



Download our free guide to see how plan participants can leverage a Roth 401(k) to reduce taxes and increase retirement income.

DOWNLOAD THE GUIDE