

Comparison of the effectiveness of a Roth v. Traditional Retirement tool

Today's marginal tax rate:	25.0%	(Federal plus state)
Expected Investment Earnings	10.0%	
Annual Contributions	10,000	
# years till retirement	50	
Marginal tax rate at retirement	15.0%	(Federal plus state)
Expected earnings at retirement	5.0%	

Here's the comparison assuming you would invest the same amount in one choice or the other:

	<u>Traditional</u>	<u>Roth</u>
Today's marginal tax rate: (Federal plus state)	0.0%	25.0%
Annual Contributions	10,000	10,000
Total amount saved for retirement	12,221,040	12,221,040
Annual amount available for spending (assuming you don't want to spend down your principal)	611,052	611,052
Marginal tax rate at retirement	15.0%	0.0%
Annual amount available for spending	519,394	611,052

Now assume you're going to contribute "net-of-tax" dollars.

IE: Watch what happens when you maximize your 401k based on tax savings earned immediately.

	<u>Traditional</u>	<u>Roth</u>
Today's marginal tax rate: (Federal plus state)	0.0%	25.0%
Annual Contributions - Tax effected*	13,333	10,000
Total amount saved for retirement	16,294,719	12,221,040
Annual amount available for spending (assuming you don't want to spend down your principal)	814,736	611,052
Marginal tax rate at retirement	15.0%	0.0%
Annual amount available for spending (net of tax)	692,526	611,052

* Since a traditional retirement vehicle is deductible now; you are able to Contribute more. This tool assumes you will maximize the amount you can contribute based on current tax savings.

IE: **13,333** in Traditional 401k contributions

will lower your net pay by only **10,000**
based on the current assumptions.

When choosing between Roth and Traditional, the primary factors are:

What will your tax rate be when you retire?

What is your tax rate right now?