

The Roths: 401(k) vs. Roth IRA. Which is better?



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Roth 401(k) plans and Roth IRAs are similar retirement plans in that both are funded by after-tax dollars, that is, income you've already paid taxes on. They also both offer qualified tax-free distribution, for earnings as well as principal, if your withdrawals start after age 59.5. But that's about where the similarities end.

ROTH 401(k)s

- The 401(k) version of the Roth allows the employee, or "participant," to make greater annual contributions than the IRA. For 2019, the contribution maximum is \$19,000 by an employee under age 50. If you are 50 or older, you can contribute another \$1,000, a provision designed to allow older employees just starting out on their retirement plan to catch up on their retirement savings.
- Roth 401(k) plans allow employers to offer matching contributions, that is, contribute an amount equal to the employee's contribution up to a designated percentage of the maximum contribution.
- In a Roth 401(k) plan, an employer's matching contribution must go into a Roth 401(k). That money is pre-tax, so at distribution, it will be taxed as ordinary income at your tax rate at that time.
- If your Roth 401(k) is in place at age 70.5, you will be subject to annual required minimum distributions (RMDs). If however you "roll over" your Roth 401(k) into a Roth 401(k) prior to age 70.5, you are not subject to an RMD. You will, however, be required to pay taxes on the roll over amount.
- If you take a distribution from a Roth 401(k) plan prior to age 59.5, you will pay a penalty. You can, however, take a distribution from the plan and reinvest it within 60 days without penalty.
- A Roth 401(k) plan can include hardship distribution options.

ROTH IRAs

- Roth IRA plans have income rules that affect eligibility. Individual eligibility starts phasing out at an income of greater than \$137,000; for a couple, at \$203,000.

- There is no matching employer contribution to a Roth IRA.
- While a Roth 401(k) plan is limited to a list of investment choices defined by the plan, a Roth IRA is open to the entire universe of investments.
- Roth IRA plans are portable from company to company, giving the participant the freedom to choose who will manage their investments.
- Distributions from a Roth IRA plan is penalty-free if the participant is over age 50, but only for principal, not earnings.
- You cannot borrow from a Roth IRA.
- First-time homebuyers who own a Roth IRA for at least five years could be eligible to take a distribution without fees or a penalty.
- Like the Roth 401(k), a Roth IRA plan can include hardship distribution options.

Roth 401(k) and Roth IRAs differ in benefits and rules. But both offer unique and substantial savings opportunities, and both should be considered and compared when it comes to saving for retirement.

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