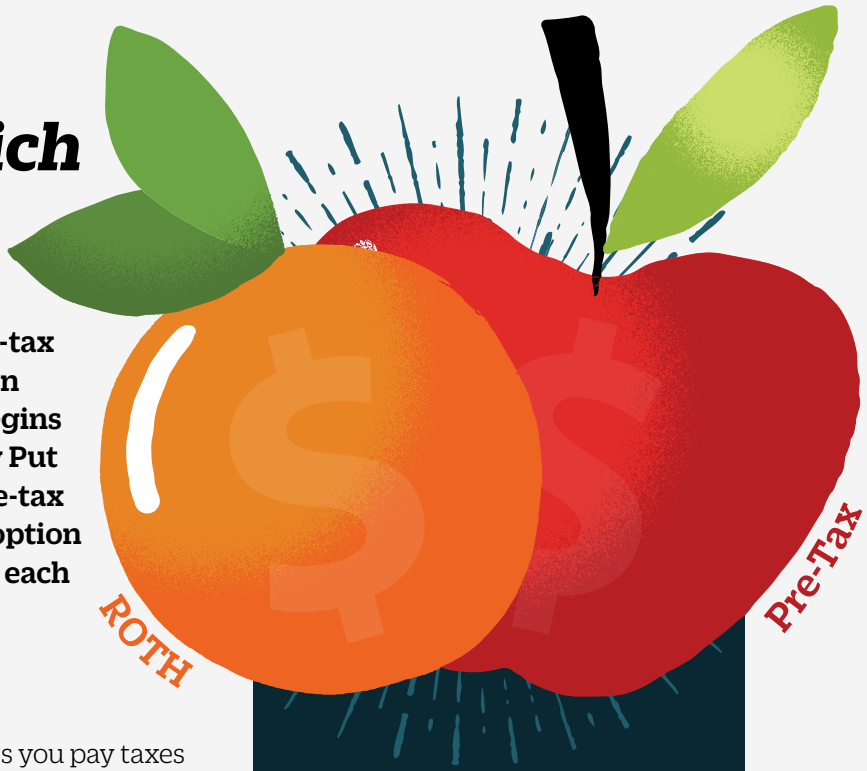
SIMPLY PUT

Retirement Savings Education, Simplified

First Quarter 2019

Roth vs Pre-Tax: Which is right for you?

There's more than one way to save for your future, including saving with pre-tax and after-tax (Roth) retirement savings accounts. Deciding on which option is best for you and your future begins with learning the basics. This edition of Simply Put highlights the difference between Roth and pre-tax retirement savings accounts, discusses which option fits your situation best, and takes a look at how each will play a factor in your retirement.



ROTH SAVINGS

The Roth savings option – also known as after-tax – lets you pay taxes on the money you save **as you contribute** it to your deferred comp account and since you pay taxes upfront, you don't owe them in retirement. This allows your Roth savings to grow tax-free throughout your career with the state and through your retirement. While this option does increase your current tax bill, it can give you more spendable money in your golden years.

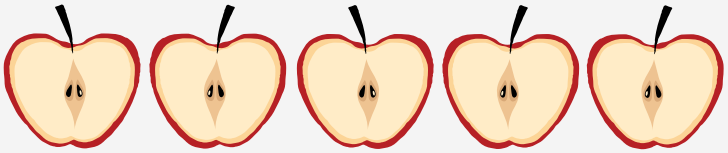
PRE-TAX SAVINGS

The pre-tax or traditional retirement savings option is the exact opposite of Roth. Instead of paying taxes on your contributions now, you'll pay them when you withdraw your money after you leave state employment. The perks of saving tax-deferred (paying taxes at a later date) is that your savings in the pre-tax 457 account, and any investment earnings on those assets, will grow tax-free until funds are withdrawn.

$AVERS CREDIT

Speaking of taxes, Uncle Sam wants you to save for retirement! So much, that he offers the Saver's Credit for low to moderate-income taxpayers who save for their retirement. Credit levels are based off of your adjusted-gross income and filing status. Be sure to speak with your tax-professional to see if you qualify for the Saver's Credit.

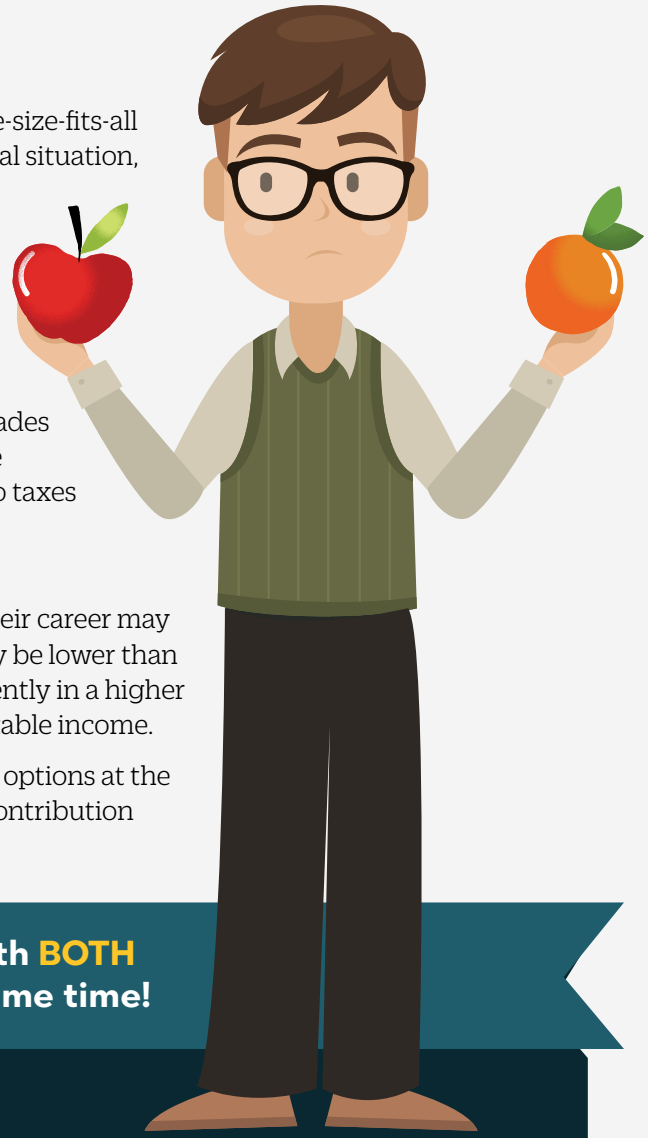
The Roth option allows taxes to chomp on your contributions, rather than account withdrawals.



With the pre-tax option, Uncle Sam takes a bite of your account withdrawals.

WHICH OPTION IS BEST?

This is a common question we receive and unfortunately, there's no one-size-fits-all answer. How you decide to invest your money depends on your personal situation, specifically your age or years until retirement and your future income potential. Below are a two questions you can ask yourself to help you make a smart decision:



1. **How many years are there until your ideal retirement?**

   Generally, a Roth account may be ideal for younger savers or those further away from retirement, as their savings have decades to grow tax-free. A pre-tax account may be beneficial for those nearing retirement, since it allows your entire contribution (no taxes taken out) to compound and grow.

2. **Will you be in a higher tax-bracket in retirement?**

   Those who believe their income will be higher at the end of their career may benefit from Roth savings, as the taxes they pay now will likely be lower than those they'll pay in retirement. On the flip-side, if you are currently in a higher tax bracket, saving pre-tax could help reduce your current taxable income.

Still can't decide? The MO Deferred Comp Plan lets you save with BOTH options at the same time, as well as invest in each differently. To change your future contribution allocation, log on to **Account Access** and visit the **Contributions** page.

The MO Deferred Comp Plan lets you save with BOTH the pre-tax and Roth savings options at the same time!

SPENDING YOUR SAVINGS

One of the biggest advantages of saving with the MO Deferred Comp 457 Plan is that **you can withdraw your money, penalty-free, after you leave state employment** and that goes for both the pre-tax and Roth savings accounts. Again, you will be subject to taxes on any pre-tax distributions you make after separation, but Roth contributions will not. However, in order for the earnings portion of your Roth distribution to be tax-free, you must be age 59 ½ or older and have held the Roth account more than five years.

HELP IS ONLY A CLICK AWAY

Now that you understand the difference between Roth and pre-tax retirement savings, you might be wondering, *"How much should I be contributing to reach my retirement savings goals?"* Luckily, deferred comp has several easy-to-use calculators to help you figure your target savings rate and needed end balance.

- **RetiremenTrack** uses your personal information – including defined benefit pension and social security estimates – to determine if you'll have enough income in retirement.
- Use the **Grow Your Retirement Savings Calculator** to determine how much you'll need to save each pay period to reach your retirement savings goal for a specific annual withdraw amount.

Visit **www.modeferredcomp.org** to use one of these powerful tools. Doing so will empower you with the knowledge and confidence to save wisely for your future.

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