Invested in your future

# Pre-Tax vs. Roth (Post-Tax) Contributions

## Choosing which is right for you

As an RPB plan participant, you have the option to make your elective deferral contributions to your 403(b) retirement account with pre-tax dollars, post-tax dollars (known as Roth contributions), or a combination of both.

### YOUR OPTIONS: THE KEY TAKEAWAYS

- With **pre-tax contributions**, you postpone paying taxes on the money you contribute, but you'll pay taxes later on both your contributions and their earnings.
- With **Roth contributions**, you pay taxes now on the money you contribute, but it grows tax-free. When you make qualified withdrawals, you won't pay federal income tax on any of it.
- You can make both pre-tax and Roth contributions—and change your contribution preferences at any time.
- Your contributions from your paycheck cannot exceed the **IRS annual contribution limit**.
- Starting in 2026, if you earn more than $145,000 in the prior calendar year, age 50 catch-up contributions must be made as Roth contributions. If you earn $145,000 or less (adjusted for inflation) you'll still be able to make pre-tax or Roth catch-up contributions.
- **Employer contributions** can only be made as pre-tax contributions.

# Pre-tax vs. Roth contributions: How they work

**Pre-tax contributions** are taken out of your paycheck before taxes are withheld. This reduces your current taxable income and the amount of income taxes you pay now. After you retire and start withdrawing your money, you'll pay taxes on all of it—the contributions and the investment returns the account generated.

When you make **Roth contributions**, you pay income taxes now on the money you contribute to your account. But those contributions—and their earnings—will be tax-free when you use your money in retirement, as long as they are qualified withdrawals (see below).

You can split your money between pre-tax and Roth contributions in any proportion and change it at any time.

**Clergy:** Speak with your tax advisor to review the tax benefits of parsonage in retirement and the tax benefits of making Roth contributions.

## COMPARISON OF CONTRIBUTION TYPES IN YOUR 403(b) PLAN

| | Pre-tax contributions | Roth contributions (post-tax) |
|---|---|---|
| **Employee contributions** | The IRS limits your contributions each year. The 2024 deferral contribution limit for pre-tax and/or Roth post-tax contributions is $23,000 ($30,500 if you are age 50+). | |
| **Taxes on contributions** | None. Contributions are made before taxes are withheld, which reduces your current taxable income. | Yes. Contributions from your paycheck are made after taxes are paid. |
| **Taxes on withdrawals** | **Contributions** and **investment earnings** are taxed upon withdrawal.<br><br>If withdrawn before age 59.5, there is a 10% penalty.[1] | **Contributions** are not taxed because they were made with post-tax dollars.<br>**Earnings** on your contributions are federal tax free if:<br>1. You've held your account for five years[2], and<br>2. You're at least age 59.5 (or disabled or deceased)<br>If withdrawn before 5 years, earnings will be taxed.<br>If withdrawn before age 59.5, there is a 10% penalty.[1]<br>You may pay state income taxes on Roth earnings based on where you live. |
| **Required Minimum Distributions** | Yes, at age 73 (unless still working) | No |
| **Tax-free money to heirs** | No | Yes, once the account is 5 years old |

[1] There is no 10% penalty if you are 55 or older in the calendar year that you stop working for an RPB-eligible employer.

[2] Beginning January 1 of the year that you made your first Roth contribution. If you roll over Roth savings from another qualified plan into the RPB plan, the earlier "first contribution" year of either plan will determine if the 5-year rule is met.

# Which is best for you?

Below are some considerations to keep in mind when deciding about pre-tax and Roth contributions. But this is not necessarily an either/or decision. Making a combination of both types of contributions gives you tax diversification in retirement.

| **Pre-tax contributions**<br>may be right for you if: | **Roth (post-tax) contributions**<br>may be right for you if: |
|---|---|
| • **Your tax rate is higher now than you expect it to be in retirement.**<br>• **You're on a tight budget.** Making pre-tax contributions postpones your taxes, keeping more money in your paycheck now.<br>• **You want to reduce your income tax burden for the current year.**<br>• **You have other tax benefits available to you in retirement.** (Clergy can reduce their income tax burden in retirement with their parsonage tax exclusion.) | • **Your tax rate is lower (or the same) now as you expect it to be in retirement.**<br>• **You have a longer time horizon**—especially if you are early in your career—to accumulate qualified tax-free earnings.<br>• **You want to leave tax-free money to your heirs.**<br>• **You earn too much to contribute to a Roth IRA**, but you want a pool of tax-free money to withdraw in retirement.<br>• You want to make Roth contributions **greater than the Roth IRA contribution limit.**<br>• **Clergy:** You anticipate your parsonage tax exclusion in retirement to be lower than the income you will need to live on. |

# Considering your retirement income, budget, tax bracket, and more

Key factors in determining whether pre-tax or post-tax contributions will ultimately benefit you is whether your income in retirement will be higher or lower than your income now, what budget you'll need in retirement, and the estimated amount you'll be required to withdraw from your RPB account based on IRS rules.

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Answering these questions may help:

1. **What are the sources of income you will have in retirement, other than Social Security?**
2. **Which of these will be considered taxable income?**
3. **What will your expenses be?**
4. **What deductions, if any, will you have?**
5. **What impact will your total income have on the taxation of your Social Security benefit?**
6. **What will your required minimum distributions (RMD) be?**
7. **Where will you be living in retirement? The state you live in may tax Roth earnings.**

Income sources may include your savings, your RPB account, other retirement accounts, capital gains from the sale of a house or investments, and your spouse's income, if you file taxes jointly. But not all of these are taxable.

**We recommend that you speak with a Fidelity retirement planner (free to all RPB plan participants) and/or your financial and tax advisors to help you decide what's right for you.**

## Questions?

We're here to help.

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Disclaimer: This information is intended to be educational and is not specific to any individual investor. A Roth 403(b) distribution is federally tax-free and penalty-free, provided the five-year holding period has been satisfied and one of the following conditions is met: age 59.5, disability, or death. State taxes may apply. Elective contributions to both pre-tax and Roth 403(b) accounts are subject to the annual IRS dollar limit under Section 402(g) of the Internal Revenue Code, plus allowable catch-up contributions.