Pretax or Roth

Which retirement plan contribution may be right for you?

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Should you pay taxes now or later?

If your retirement plan offers both pretax and Roth contributions, you have two ways to save for retirement. Pretax contributions give you a tax break right away, while Roth contributions provide tax advantages later. Understanding the difference can help you make confident, informed decisions for your future.

The SECURE 2.0 Act allows employers to offer Roth employer contributions under the plan. However, this summary only covers pretax or Roth employee contributions.

Pretax: Pay taxes later	Roth: Pay taxes now
Take home **more pay** today in exchange for paying taxes on your account when you retire.	Take home **less pay** today in exchange for not having to pay taxes on your account when you retire.
Pretax: **Pay no taxes now** on the money you invest, which lowers your taxable income right away.	After-tax: **Pay taxes now** on the money you invest so you can enjoy a tax break later.
You may pay a penalty if you begin withdrawing money before age 59½.	You may pay a penalty if you begin withdrawing money before age 59½ or if the Roth account is less than five years old.
In retirement, you'll pay taxes on the money you invested — and on the earnings.	**In retirement, you won't pay taxes** on the money you invested — or on the earnings.

If your employer matches your Roth contributions, the employer match is considered a pretax contribution. You'll have to pay taxes on that portion when it's withdrawn during retirement.

In the year you turn age 50, you may be eligible to make catch-up contributions. If you're considered a highly paid individual, you may be required to make catch-up contributions on a Roth basis starting in 2026. For more information, contact your retirement plan representative. To learn more, visit **LincolnFinancial.com/IRSlimits**.

Take a look at two types of savers:

Pretax contributions are typically better if you expect your average tax rate to decrease in retirement.

Alex expects his taxes to be lower in retirement than they are now. The expected lower tax rate may make a pretax contribution more attractive for him — now and in the future.

The pretax option may be right for you if …

- You expect your taxes to be lower in retirement than they are today. You may save by lowering your taxable income now and paying taxes on your savings after you retire.
- You'd rather limit taxes on your take-home pay. Making contributions to a pretax account reduces your current taxable income, and you pay taxes later on both your contributions and your earnings.

Roth contributions are typically better if you expect your average tax rate to increase in retirement.

Margo expects her taxes to be higher in retirement than they are now. If she can afford to pay the taxes today, she may be able to build an after-tax nest egg by choosing the Roth option.

The Roth option may be right for you if …

- You expect your taxes to be higher in retirement than they are today. You may save by paying a lower tax rate on your savings now.
- You'll pay taxes on contributions now, but if you meet certain conditions, you won't have to pay taxes on earnings, giving them time to grow.
- You'd rather pay taxes now than later. If you're in your peak earning years, you may be able to afford to pay more taxes now.

Still undecided?

Everyone's situation is different, and many factors can affect whether pretax or Roth contributions are right for you. To learn more, talk with your retirement plan representative.

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Other considerations

Can I contribute to both?

Not sure which type of contribution is right for you? Your plan may allow you to make both pretax and Roth contributions. Diversifying the timing of your tax payments between now and the future may help you balance the effects, no matter what happens later.

Can I convert my existing account balance to Roth?

Your plan may allow Roth in-plan conversions, meaning you can convert non-Roth account balances to a Roth account within the plan. Contact your retirement plan representative to discuss your options.

Why would I consider conversion?

If you were saving pretax money, you may want to convert it now to allow more time for tax-free earnings to grow. Or you may want the flexibility to gradually start paying taxes now instead of waiting until you withdraw the money.

What if I leave my job?

If you leave your employer, you can roll your pretax retirement plan account into an Individual Retirement Account (IRA) and your Roth account into a Roth IRA. You also may have the option of rolling your account into your next employer's retirement plan. Consider the pros and cons of each before deciding what's right for you.

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May go down in value

[1] Lincoln 2Q 2023 Book of Business.

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