Please note: This is a transcription so there may be slight grammatical errors.

Many employers are adding tools for their employees to develop flexible and well-rounded retirement savings. Today, I'd like to talk to you about an additional tax advantaged account, the Roth feature. So what is Roth? In simple terms, a Roth account allows you to save for retirement by paying income tax on your current contributions, letting them grow tax-free so when you take it out in retirement, you don't have to pay taxes. Roth types of savings are available through IRAs but are also available through your employer sponsored retirement plan. You can check with your human resources or benefits coordinators to see if you have access to Roth savings in your retirement plan.

Here are answers to some of the most common questions that we hear from employees who are interested in using a Roth feature. Roth contributions are taxed at current tax rates for employees who may be paying income tax in a low tax bracket or even those paying no income tax. This type of savings vehicle is very powerful. If a person's tax rate goes up over their working career, they will not have to pay that higher rate on the Roth money or earnings they withdraw from their retirement plan. Many individuals think that if they contribute using Roth, they might not be getting an employer contribution as well, but that's not true. Plans that offer a match make that match regardless of whether the employee contributes that amount in Roth or traditional savings. It is important to note that any money contributed by an employer such as a match or profit sharing will be taxed when it is taken out. So some of the account distributions will likely be subject to taxes while others may not.

Roth distributions do have some different restrictions than pre-tax distributions. First of all, Roth accounts need to be established for five years and like other distributions, there can be penalties for withdrawals before age 59 and a half. For those of you who cannot access a Roth IRA because of the income restrictions, it's important to note that the Roth 401(k) or 403(b) contributions have no income restrictions. Anyone covered by a plan that offers Roth can use it. Using a Roth feature in a retirement plan can be viewed as a means of diversifying your contribution types. The ability to roll over Roth retirement accounts to a Roth IRA or convert traditional contributions to Roth within a retirement plan are sometimes used as tax planning strategies. It's very important to talk with a tax advisor whenever you are making these types of decisions.

The way to think about whether Roth makes sense for you is to think about what your current tax bracket is and try to imagine where you'll be in the future. If you think that you'll be in a higher tax bracket, Roth might make sense for you. Go ahead and pay the taxes today while you're in a lower tax bracket so when you take it out at a higher rate, you don't have to pay the taxes. However, if you think you're going to be in a lower tax bracket because your mortgage is paid off and you're living pretty simply, it might make sense to continue contributing pre-tax. So when we take it out in the future, we'll pay taxes at a lower rate. As your situation changes over time, we recommend revisiting your contributions to make sure that they still make sense for you. Understanding how Roth works is important and CAPTRUST can answer questions whether you decide to use Roth or not.