

## Roth 401k vs. Roth IRA

The term "Roth" in retirement planning causes some confusion. It may be helpful to think of "Roth" as a contribution type as opposed to a type of account. Here's a summary of the history of the Roth designation and what distinguishes the Roth option as an IRA account versus a 401k contribution.

### HISTORY OF THE ROTH OPTION IN RETIREMENT PLANNING

The Roth IRA was introduced as part of the Taxpayer Relief Act of 1997. It was named after Senator William Roth, who sponsored the legislation for Congress. At that time, the traditional (tax-deductible) IRA option had been repealed because Congress was not in favor of the tax revenue lost by the tax deduction. Senator Roth devised a solution in two parts. First, to restore the traditional IRA but limit the tax deduction to people with limited income. Second, create another IRA option, where the contributions *are not* tax deductible, but withdrawals in retirement would be tax-free. The balance of having two IRA options was a way to encourage retirement savings without reducing government revenue in the short term. Congress passed the legislation effective as of January 1998, and the Roth IRA was born. In 2006, additional legislation was passed to extend the option to make Roth contributions in 401k plans.

### HOW ARE ROTH IRAS AND ROTH 401KS SIMILAR

Roth contributions are **always after-tax** contributions. Any money that is designated as a Roth contribution has been taxed. Think of the contributions as coming from your NET income as opposed to your GROSS income. Distributions from Roth assets are **always tax-free** (you paid the tax bill upfront when contributions were made).



### HOW ARE ROTH IRAS AND ROTH 401KS DIFFERENT

**Income Limits:** There are no income limits to making Roth 401k contributions. Anyone who has a Roth option in their 401k can make Roth contributions. However, not everyone can contribute to a Roth IRA; your eligibility to contribute to a Roth IRA is based on your income level. In 2025, the income limit to make a full Roth contribution for a single filer is \$150,000 in Modified Adjustable Gross Income (MAGI), and \$236,000 (MAGI) for those filing a joint return.\*

**Contribution Limits:** Roth IRAs have a lower contribution limit than Roth contributions to 401ks. Contribution limits follow general IRS guidelines for each type of account. For example, in 2025, the Roth IRA contribution limit is \$7,000 (plus a \$1,000 catch-up for those 50 and older). The Roth 401k contribution limit is \$23,500 (plus a \$7,500 catch-up for ages 50+ and an enhanced catch-up of \$11,250 for those ages 60-63).\*

**Bottom Line:** There is no income limit restriction to making Roth contributions to your 401k. If your plan offers a Roth option, you can make a Roth contribution.

# ROTH 401K VS. ROTH IRA

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\*Source [www.irs.gov](http://www.irs.gov)

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