

Roth 401(k) Contributions

In addition to making pre-tax and after-tax contributions to your Redmond MEBT Plan account, effective January 1, 2025, you may also make after-tax Roth contributions. Designated Roth contributions are considered “after-tax,” meaning the salary deferrals are taxed as regular income before being deferred into the plan.

When considering whether Roth 401(k) contributions are right for you, several factors could be relevant to your decision. The following explains the difference between Roth 401(k) and Traditional 401(k) deferrals and lists some of the factors you should consider.

Traditional Pre-Tax 401(k) versus Roth 401(k) Contributions

Contributions to a traditional 401(k) retirement account are not subject to federal and state income taxes at the time the contribution is made, and any investment earnings grow tax deferred. When you withdraw your accumulated contributions plus investment earnings in retirement, you pay ordinary income taxes at the federal and state income tax rates applicable to you at the time of the withdrawal.

The taxation of a Roth retirement account is almost the opposite. Roth contributions are made to the Plan after tax and therefore are subject to federal and state income taxes in the year in which you make the contributions. When you withdraw your accumulated contributions at retirement, they are not subject to income taxes. The investment earnings on your Roth account are tax free if you are at least age 59½ when you withdraw them and your first contribution into the Roth account was at least five years prior. If you are under 59½, regardless of the age of the Roth account, you will be required to pay taxes on the investment earnings at the time of the withdrawal.

Traditional 401(k) and Roth 401(k) – A Comparison

<i>Benefit</i>	<i>Traditional 401(k)</i>	<i>Roth 401(k)</i>	
Tax-deferred Contributions?	Yes	No	*
Tax-free Distributions?	No	Yes*	
Maximum Total Annual Contribution to Plan? **	\$23,500	\$23,500	
Catch-up Contributions? ***	Yes; \$7,500 per year maximum.	Yes; \$7,500 per year maximum.	**
Income Limits for High Earners? ****	No	No	
<p>Note: The above contribution limits are as of 2025. Contribution limits for future years may be subject to inflation adjustments.</p>			***

Tax law requirements must be met. To qualify for a tax-free withdrawal of earnings, withdrawals must be taken after five tax years have elapsed, starting with the year the first Roth contribution is made, and after age 59 ½ or upon death or disability.

Traditional and Roth 401(k) contributions are combined in applying maximum plan contribution limit.

Traditional and Roth 401(k) catch-up contributions are combined in applying maximum plan catch-up limit.

Unlike with Roth IRAs, there is no income limit on who can contribute to a Roth 401(k).

Making Your Decision – 401(k) vs. Roth

When considering whether Roth 401(k) contributions or traditional 401(k) deferrals are right for you, several factors could be relevant to your decision.

Some of these factors require some educated guesswork on your part. The more years you are from retirement, the more you will need to speculate on your future position.

While everyone's circumstances are different, here are some factors you may want to consider:

- Generally, the younger you are and the lower your tax bracket, the more beneficial Roth 401(k) contributions would be. This is because the tax on your contributions would be relatively small and any tax-free earnings would accumulate longer. You may end up with a larger after-tax accumulation when you retire (with all other factors, such as investment returns, being equal).
- If you expect to be in a lower tax bracket in retirement so that you will pay little or no tax, making traditional pre-tax contributions now may make more sense and result in a higher after-tax balance at retirement.
- Even if you are not able to contribute to a Roth IRA now due to the tax law's income limits, you can make Roth 401(k) contributions, if doing so is otherwise favorable to you.
- If you maintain your current contribution percentage and elect Roth contributions, your paycheck will be lower due to the tax withheld on those contributions.

Before making any decision, however, you should consult with a tax advisor who can help you look at your specific situation and determine which route – traditional deferrals or Roth contributions – is best for you.

Changing Your Contribution Election

To make a contribution change to your MEBT account, log in to www.mebt.org and click MEBT Account Online Access. If needed, create a login using "Need a Username and Password?". Contribution election changes can be made under Make Changes > Contribution Rates.

You may also call the **MEBT Service Center at 1-877-690-5410**. Representatives are available from 5:00am to 5:00pm Pacific Time Monday through Friday, except holidays.