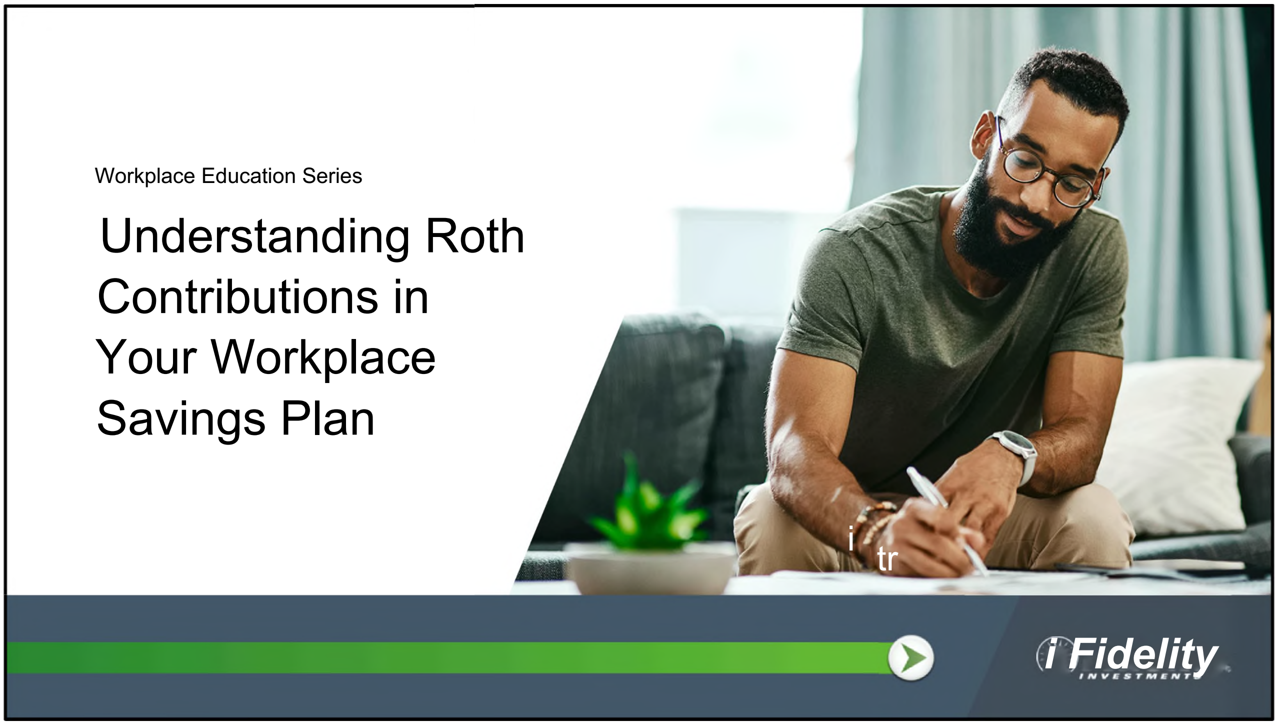
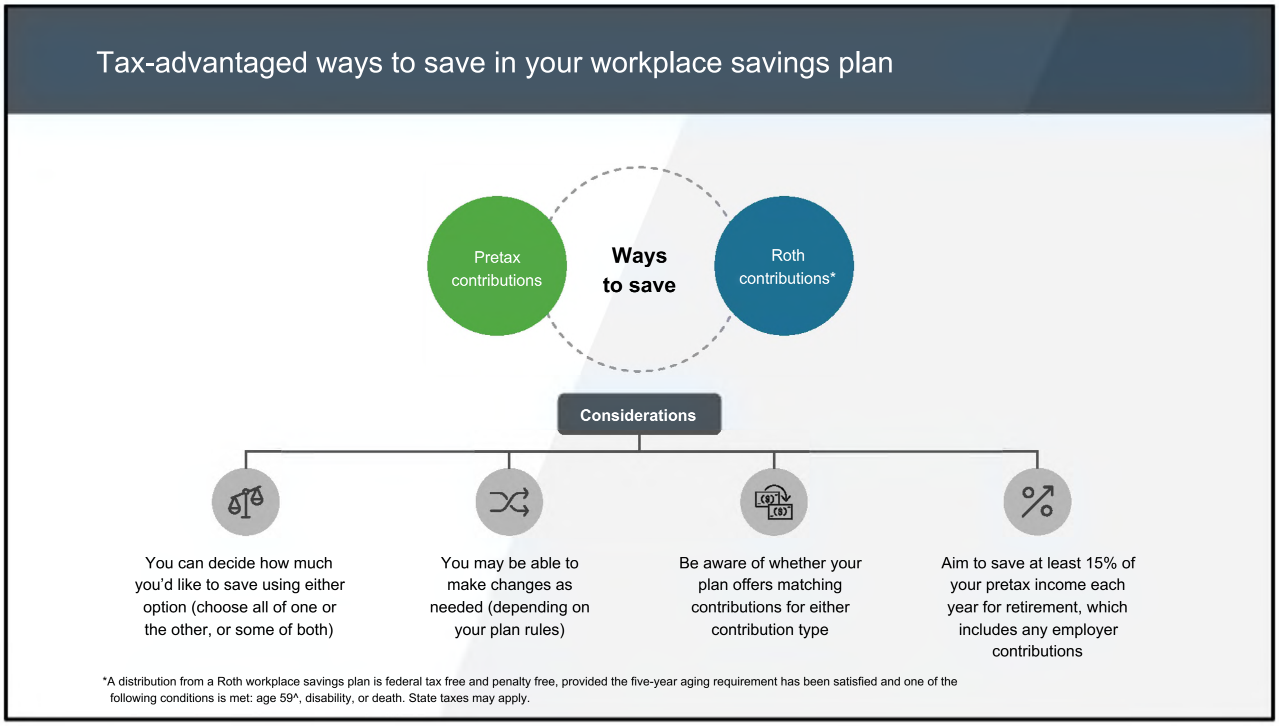


Welcome to the **Understanding Roth Contributions in Your Workplace Savings Plan** workshop. Over the next 30 minutes, we're going to explore the Roth features available in your workplace savings plan. Today, we'll discuss:

- Different tax-advantaged ways you can contribute to your workplace savings plan, including pretax and Roth contributions
- How those contribution types can affect your paycheck and your taxes
- The difference between a Roth IRA and the Roth option in your workplace savings plan
- How taking advantage of Roth contributions may fit into your overall financial plan
- Next steps to take

Let's get started.

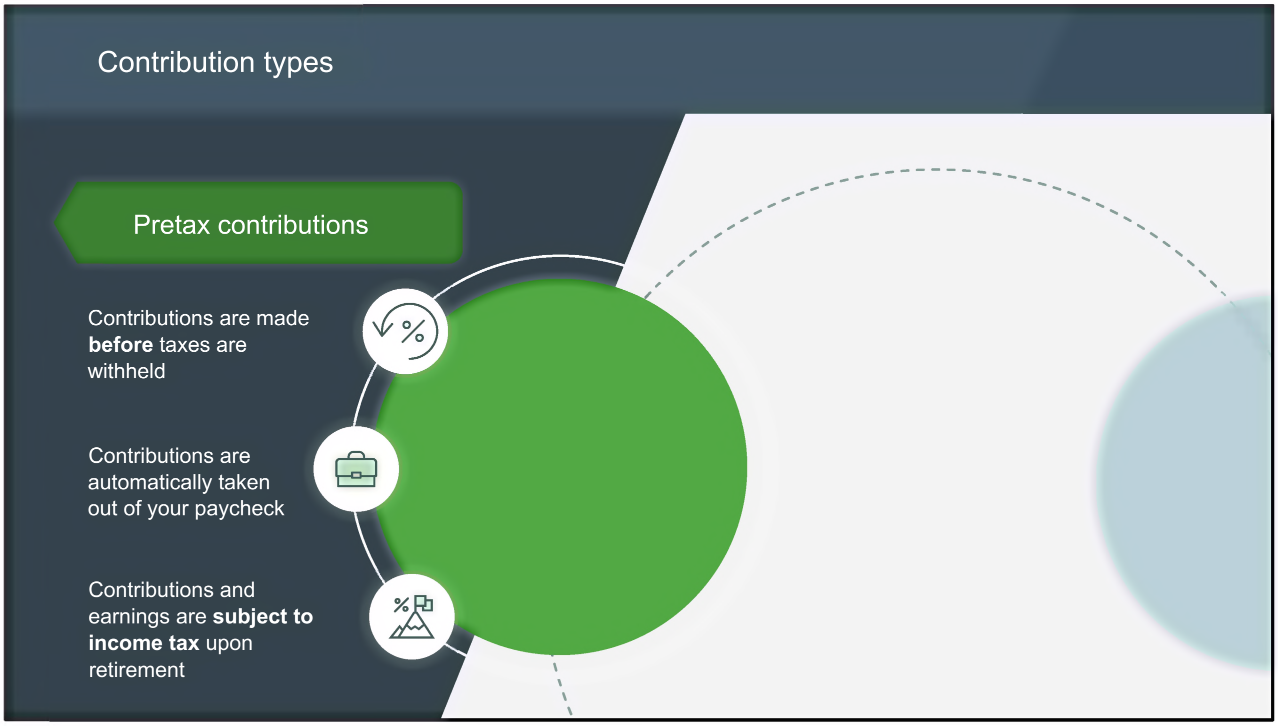


Employers may give you a choice of the types of contributions you can make to your workplace savings plan: pretax contributions (also referred to as "traditional" or before-tax contributions) or Roth contributions, which are made after taxes are paid.

You can decide how much you'd like to save using either contribution type. You can mix and match percentages, and make some pretax contributions and some Roth contributions. You can also adjust how much you contribute to each throughout the year, according to your needs and depending on your plan rules.

Fidelity's guideline is to aim to save at least 15% of your pretax income each year for retirement, which includes any employer contributions. The goal of the guideline is to help ensure you have enough income to maintain your current lifestyle in retirement.

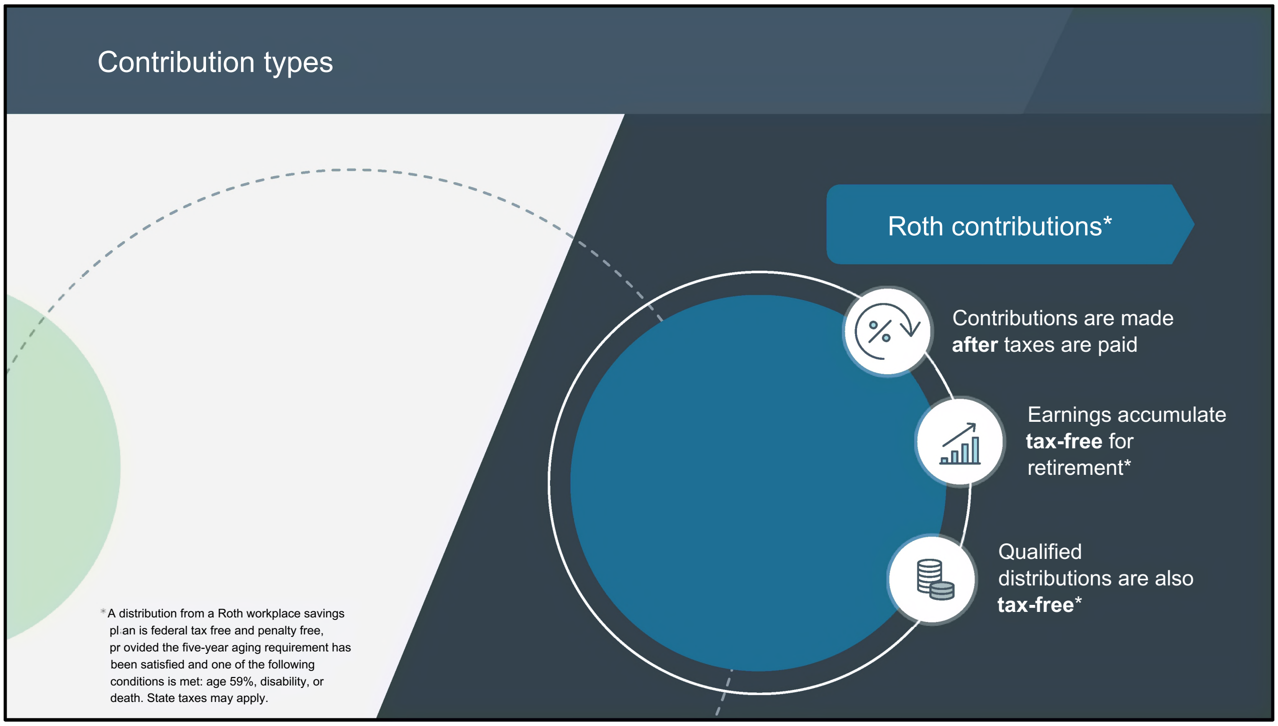
Let's take a closer look at each of these contribution types now, starting with pretax.



Your pretax contributions to your workplace savings plan come out of your pay **before taxes are deducted,** so you have more take-home pay than you would saving the same amount on an after-tax basis.

However, all pretax contributions and earnings are **subject to income tax** when you make a withdrawal in the future.

For example, if you earn $50,000 annually and contribute 10% of your income pretax, that's $5,000. Your pretax income is now $45,000 instead of $50,000, and you will be taxed on that figure. That $5,000 will go into your workplace saving plan account and grow tax-deferred. You will be taxed on any distributions you take in retirement based on the tax bracket you are in at the time.

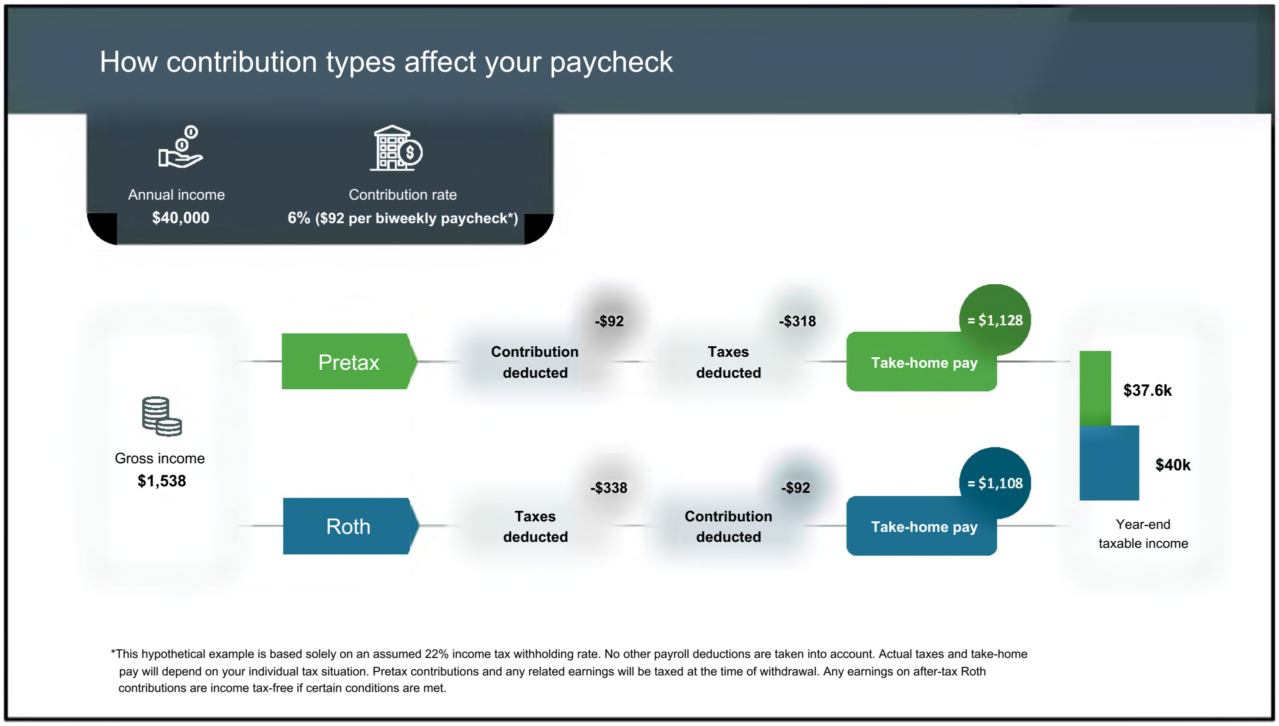


A Roth contribution option allows you to make after-tax contributions to your plan while taking your earnings tax-free upon retirement as long as the withdrawal is a qualified withdrawal. A **qualified withdrawal,** in this case, is one that is taken at least 5 tax years after the year of your first Roth contribution and after you have reached age 59% or become disabled or deceased.

Just like with pretax contributions, Roth contributions get taken out of your paycheck. The difference is that you **pay taxes on your contributions now** rather than when you withdraw them.

The Roth contribution option is a way to accumulate money for retirement with **tax-free withdrawals**. Even though you pay taxes on your contributions now, your earnings on those contributions are tax-free in retirement if certain criteria are met. There are no income limits on Roth contributions to a workplace savings plan.

For example, if you earn $50,000 annually and contribute 10% of your income using a Roth contribution, that's $5,000 (similar to the previous example). You will still be taxed on your $50,000 salary. However, the $5,000 contribution will come from your net (after-tax), take-home pay, unlike the pretax contributions that lowered your taxable income to $45,000 in the previous example. That $5,000 is invested in your workplace savings plan account and will grow tax-free provided your distribution is qualified.



Here's an example of how Roth contributions affect your paycheck differently than pretax contributions.

Lisa makes $40,000 annually and gets paid **biweekly**. She wants to save 6% of her income in her workplace savings plan, which equals roughly $92 per paycheck.

This comparison walks you through the order in which the contribution and taxes are taken out for both pretax and Roth contributions. **Again, pretax contributions are deducted before taxes. Roth contributions are deducted after taxes.**

In this example, you can see that Lisa's take-home pay is greater when she saves on a pretax basis. However, when retirement comes, her pretax contributions and their earnings will be taxable. With Roth, because she's already paid taxes on her contributions, both the Roth contributions and their earnings will be federally tax-free, assuming it's a qualified withdrawal.

(Reminder: A qualified withdrawal is one that is taken at least five tax years after the year of your first Roth contribution and after you have reached age 59% or become disabled or deceased.)

Potential future tax advantages

	Contributions	Potential growth	Account totals (prior to distribution)	Amount you may pay taxes on upon distribution in retirement
Pretax (subject to IRS limits)	$48,000	+ $56,000	$104,000	**$104,000**
Roth (subject to IRS li mits)	$48,000	+ $56,000	$104,000	**$0**

*A distribution from a Roth workplace savings plan is federally tax free and penalty free, provided the five-year aging requirement has been satisfied and one of the following conditions is met: age 59%, disability, or death. State taxes may apply.

This hypothetical example does not include an annual increase in income (only a flat $2,400 yearly contribution) but does assume a 7% annual average rate of return, no employer contributions, a 20-year compounding timeline, and a $0 starting balance. Source: Contribution Calculator on NetBenefits.com. This example is intended to demonstrate the potential differences in future taxable income for each type of workplace savings plan contribution. As with any tax strategy, you should consult a tax or financial advisor to discuss your specific situation.

Let's look at how your savings features differ in this example:

- For **pretax contributions,** you are not currently being taxed, so you will achieve a tax benefit at the time the amount is contributed to the plan.
- For **Roth contributions,** you will pay taxes when the amount is contributed, so you may achieve a tax benefit in the future.

Let's assume your accumulated investment earnings upon retirement are $56,000, making your account totals $104,000 prior to distribution.

Now let's look at how these dollars would be distributed in retirement. Be advised that during the distribution phase, one would likely take withdrawals gradually throughout retirement. This example shows the tax benefits of each:

- If you saved using **pretax contributions,** the entire account will be taxable because these dollars have never been taxed.
- If you saved using **Roth contributions,** you will not owe federal taxes on any of these dollars or their earnings, provided certain requirements are met.

Taxes play an important part in deciding which contribution sources you may want to consider. Do you think you'll be better off paying taxes on the money now or later? In general, the longer you have until you retire, and if you expect your tax rate in retirement to be higher than your current rate, the more likely you are to benefit from Roth contributions over pretax contributions. Similarly, if you think you will be in a lower tax bracket in retirement, you may want to consider making pretax contributions, which are tax-deferred. Having a combination of these features could help create a flexible distribution strategy in retirement.

Now, let's discuss the differences between Roth contributions in your workplace savings plan and in a Roth IRA. A Roth IRA is an account that is outside of your workplace plan. Because you may have access to both types of accounts, it's important to understand the differences between them.

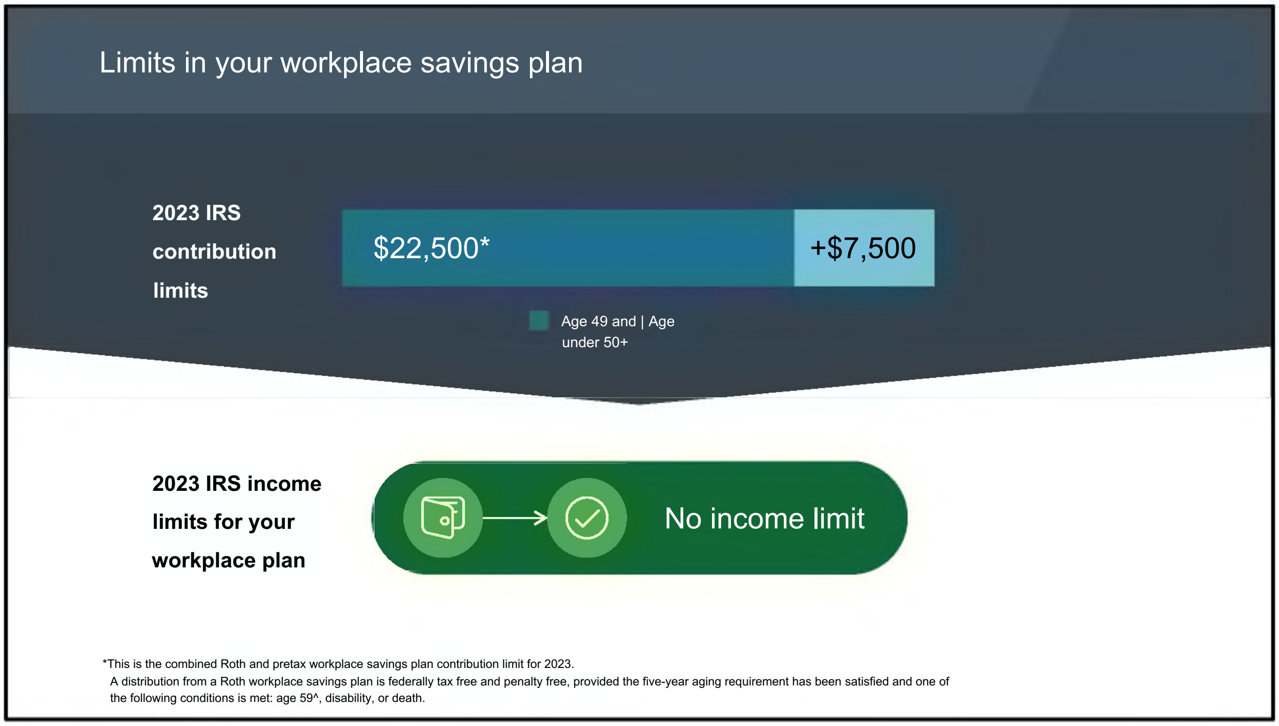
- **Contribution and income limits:**
  - The contribution amount allowed for Roth IRAs is phased out, meaning that no contribution is allowed for single and joint filers whose income exceeds certain amounts set by the IRS.
  - There are no income limits on Roth contributions to your workplace savings plan.
- **Distribution rules:**
  - With a Roth IRA, you do not have to take a required minimum distribution.
  - With your workplace savings plan, you will have to take required minimum distributions, generally after you have retired and reached age 72, whichever comes later.

While both accounts are subject to the 5-year aging requirement, each account has its own clock that starts at the time you make your first contribution to that account. For more on IRS limits: https://nb.fidelity.com/public/nb/default/resourceslibrary/articles/irslimits

A Roth IRA is an account that is outside of your workplace savings plan. The contribution amount allowed for Roth IRAs is phased out, meaning that no contribution is allowed for single and joint filers whose income exceeds certain amounts set by the IRS. This year's IRS income and contribution limits for each type of account is provided.

There are no income limits on Roth contributions to your workplace savings plan.

With a Roth IRA, you do not have to take a required minimum distribution during your lifetime.

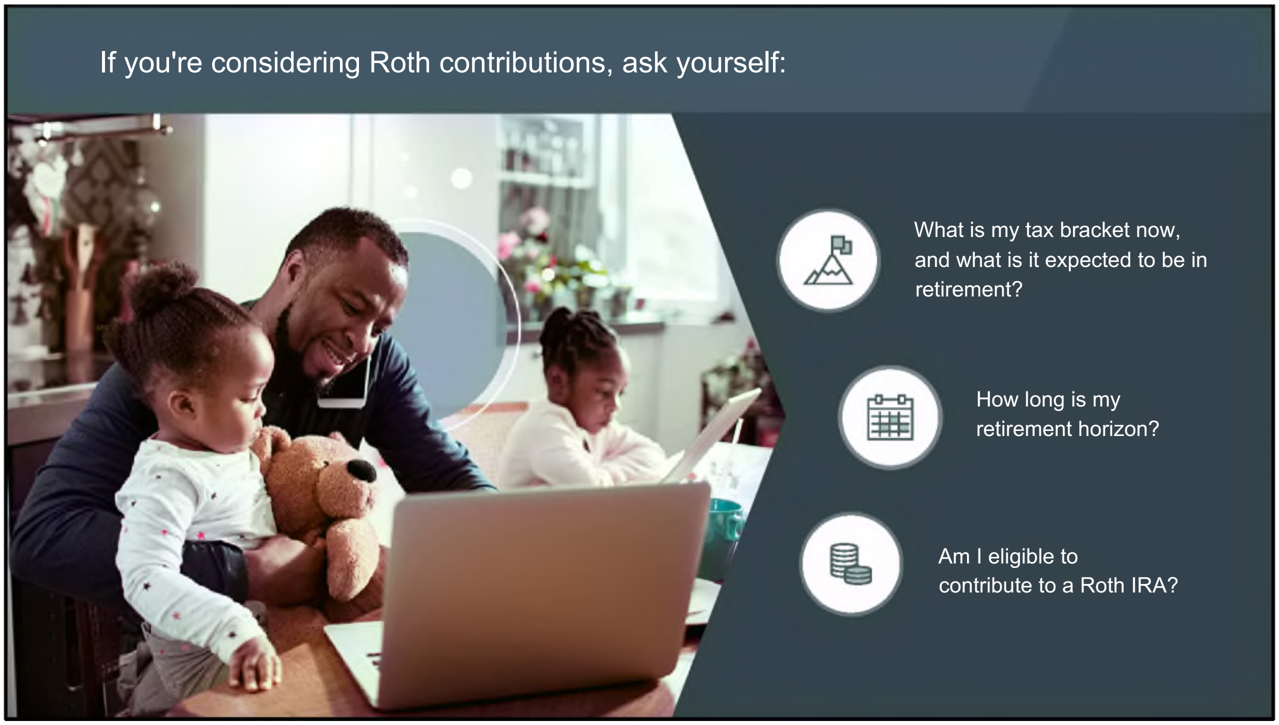


Similar to a Roth IRA, in a Roth workplace savings plan account an employee makes post-tax contributions and any earnings grow potentially tax-free. But the contributions are made through regular payroll deductions and have the same limits as a tax-deferred workplace savings plan, which are $22,500 for 2023, with a $7,500 catch-up contribution for those over 50. If you take withdrawals before reaching age 59^ (either because you leave your company or because they allow in-service distributions), your contributions will not be subject to tax, but you must take out a proportional amount of any growth on those dollars, which may be subject to taxes and early withdrawal penalties if it is not rolled into another Roth workplace savings plan account or Roth IRA.

However, Roth workplace savings plans follow tax-deferred workplace savings plan rules on this issue, which means there are **no income restrictions**.

You can also make larger contributions to a Roth workplace savings plan than to a Roth IRA. An individual can put $6,500 into a Roth IRA per year, or $7,500 if they are over 50 in 2023. By contrast, you can put $22,500 into a Roth workplace savings plan for 2023, plus a $7,500 catch-up if you're over 50. Or, you can mix and match percentages, and make some pretax contributions and some post-tax contributions.

You can adjust throughout the year, according to your needs and your plan specifications.



Whether Roth contributions may benefit you depends on your personal tax situation, now and in the future.

Tax brackets:

If you make Roth contributions, you are giving up a tax break today for a tax break in the future.

- Generally, if you expect to be in the same tax bracket in retirement as you are now, a traditional pretax and a Roth contribution are roughly equivalent from a tax perspective.
- If you expect to be in a higher tax bracket in retirement, making Roth contributions now may be a better choice because you will not have to pay taxes on qualified distributions of earnings.
- If you expect to be in a lower tax bracket in retirement, then traditional pretax contributions may make more sense for you.

Making Roth contributions means your take-home pay will be less than it would if you made equivalent traditional pretax contributions. A good question to ask yourself is, “Do you need the tax break now or can I afford it during retirement instead?"

For many, traditional pretax contributions will still be the most beneficial type of contribution to make to a workplace savings plan. We do not know what the future holds regarding tax rates. Therefore, it's difficult to predict with certainty which type of contribution will be most beneficial to you.

Here are some additional considerations:

- **Retirement horizon:** When do you plan to retire? The longer horizon you have until you withdraw your retirement savings, the more potential you have for tax-free growth with Roth contributions.
- **Roth IRA eligibility:** As long as your modified adjusted gross income (MAGI) is below the annual limit, and you have taxable compensation equal to or greater than your contribution, you can contribute to a Roth IRA.

Overall, when considering the impact of Roth contributions, it can be helpful to consult a tax or financial advisor.

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