Pre-Tax or Roth: Getting the Most Out of Your Employer Sponsored Plan

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Your employer's 401(k) or similar plan is a fantastic tool for building retirement savings. It often comes with a company match and a big decision: should you contribute pre-tax (traditional) or after-tax (Roth)? Choosing pre-tax lowers your taxes now, while Roth keeps taxes off your money in retirement. To figure out what's best for you, we'll look at your current tax bracket, your future earnings, the employer match, and the investment options in your plan. Let's break it down with simple examples for single filers and married couples filing jointly (MFJ).

Pre-Tax vs. Roth: The Basics

With pre-tax (traditional) contributions, the money comes out of your paycheck before taxes hit. If you earn $60,000 and put $5,000 into your 401(k), the IRS only taxes you on $55,000 this year. Your savings grow without taxes for now, but you'll pay income tax on withdrawals in retirement based on your bracket then. With Roth, you pay taxes upfront. That $5,000 comes from money you've already paid taxes on, so there's no tax break now. However, it grows tax-free, and you won't owe a dime on qualified withdrawals (after age 59½ and holding it for 5 years). The big question is this: will your tax rate be lower now or when you retire?

Your Tax Bracket Today: Single vs. MFJ

Tax brackets divide your income into parts, and each part gets taxed at a higher rate as you earn more. Here are the full 2025 brackets (based on taxable income after deductions):

- Single Filers:
  - 10% on $0 to $11,925
  - 12% on $11,925 to $48,475
  - 22% on $48,475 to $103,350
  - 24% on $103,350 to $197,300
  - 32% on $197,300 to $250,525

    - 35% on $250,525 to $626,350
    - 37% over $626,350
- Married Filing Jointly (MFJ):
    - 10% on $0 to $23,850
    - 12% on $23,850 to $96,950
    - 22% on $96,950 to $206,700
    - 24% on $206,700 to $394,600
    - 32% on $394,600 to $501,050
    - 35% on $501,050 to $751,600
    - 37% over $751,600

For example, if you're single and earning $80,000 (in the 22% bracket), a $5,000 pre-tax contribution cuts your taxes by $1,100 this year. If you're an MFJ couple making $160,000 (also 22%), a $10,000 pre-tax contribution saves you $2,200. In the 10% bracket—like $20,000 single or $40,000 MFJ—you'd save just $500 or $1,000. The higher your bracket now, the more pre-tax helps today. But what happens in retirement matters just as much.

Career Earnings: Forecasting Your Future Bracket

Where your income is headed can tip the scales. Let's look at some examples.

Case 1: Sarah, the Rising Star (Single)
Sarah is 28, earns $50,000 (12% bracket), and expects to make $120,000 (24% bracket) as a nurse in her 40s. She contributes $6,000 to her 401(k). If she picks Roth, she pays $720 in taxes now at 12%. Later, her withdrawals are tax-free, which could save her $1,440 or more (24% on $6,000, plus growth). With pre-tax, she saves $720 today, but she'd owe more in taxes later. Roth makes sense for Sarah because her income is going up.

Case 2: Mark & Jen, the Peak Earners (MFJ)
Mark and Jen are 50, earning $180,000 together (22% bracket), and plan to live on $90,000 (12% bracket) in retirement. They contribute $10,000 pre-tax, saving $2,200 in taxes now. In retirement, they'd pay $1,200 on that withdrawal, pocketing a $1,000 difference. Roth would cost them $2,200 upfront with no break now. Pre-tax works for them because their taxes are higher today than they'll be later.

Future tax rates could change things too. If rates jump to 40% by 2040, Roth looks even better. If you're early in your career with room to grow, Roth might be your pick. If you're at your peak and expecting a simpler retirement, pre-tax could be the way to go.

The Employer Match: Grab the Free Cash

The employer match is like a bonus for saving—it's free money you earn by contributing. Here's how it works: your company matches a portion of what you put in, up to a percentage of your salary. For example, a "100% match on the first 4%" means if you earn $60,000 and contribute $2,400 (4%), they add $2,400. A "50% match on 6%" means $3,600 from you (6%) gets you $1,800 more. This match usually goes into your pre-tax account, even if you choose Roth, growing your savings effortlessly.

A few things to know:

- Limits: The match has a ceiling, like 6% of your pay. In 2025, your total contributions (yours plus the match) can't go over $69,000—or $76,500 if you're 50 or older—per IRS rules.
- Vesting: Some company plans make you "earn" the match over time. Leave too soon, and you might lose part of it—check your plan's "vesting schedule."
- Why It's Great: A 100% match doubles your contribution right away. Even a 50% match gives you a 50% boost. That's a return no investment can beat.

Case 3: Lisa's Match Lesson (Single)
Lisa is 35, earns $70,000, and has a 5% match ($3,500) with a 100% match on the first 5%. She puts in $2,000 (Roth), gets $2,000 matched (pre-tax), but misses out on $1,500 because she didn't reach 5%. If she bumps it to $3,500—maybe $2,000 Roth and $1,500 pre-tax—she'd get the full $3,500 match, totaling $7,000 for the year. The takeaway? Contribute enough to grab every dollar of that match—it's too good to pass up.

Investment Options: Where Your Money Lives

Your contributions go into investments like stocks, bonds, or mixed funds, and your plan's choices affect your growth. Here's what you might see:

- Target-Date Funds: Choose your retirement year (like 2055). They start with more stocks for growth, then shift to bonds for safety as you age. Fees normally range from 0.1% to 0.8%. For $10,000 growing at 7% over 20 years, you'd have $38,700 at 0.1% but only $32,600 at 0.8%—a $6,100 difference. They're easy, but watch the fees.

- Index Funds: These follow big markets like the S&P 500 (500 top U.S. companies). Fees are low, usually 0.03% to 0.1%. That $10,000 at 0.05% grows to $38,500; at 1%, it's $31,700—a $6,800 loss. They're affordable and reliable.
- Bond Funds: These lend money to governments or companies for steady returns, growing 3% to 5%. Fees are 0.2% to 0.7%. They're calmer, and typically thought of as less risky, but that isn't always the case.
- Active Funds: Managers try to beat the market, but fees are higher, 0.5% to 1.5%. That $10,000 at 1% lags $6,800 behind a 0.05% index fund over 20 years, assuming the same performance.

Check your plan's portal for each fund's "expense ratio" (the yearly fee percentage). Low fees—under 0.3%—keep more money growing. Index or target-date funds usually win. If your options are pricey or limited, take the match and consider an IRA for better picks.

Your Playbook

- Pre-Tax If: You're in a high bracket now (32% or more for singles, 32% or more for MFJ) and expect a lower one in retirement (like Mark & Jen). This choice lowers your tax bill today.
- Roth If: You're in a lower bracket (12% to 22%), expect your income to grow (like Sarah), or think tax rates will rise later. This saves you taxes in retirement.
- Blend: You can split contributions if your plan allows it. Lisa could do $2,000 Roth and $1,500 pre-tax to get the match and balance both benefits.
- Invest Wisely: Stick to low-fee funds (0.03% to 0.3%) for the best growth. Avoid funds with fees over 1% unless they're truly special.

Take Action

Your 401(k) thrives with a little planning. Look up your match rate and fund fees online. A tax calculator—or a chat with me—can show your bracket now and later. Whether you're single or MFJ, your numbers tell the story.

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