Vanguard®

You can choose when to save on taxes

Which plan contributions are best for you?

You have several ways to contribute to your retirement savings plan. Each type of contribution has its own characteristics, as shown below. To see whether you might benefit from Roth 401(k) contributions, review the back of this insert.

Provision	Before-tax*	Traditional after-tax	Roth 401(k)*
Income taxes when contributing**	Taxes are deferred until you withdraw money.	Taxes are paid when you make the contributions.	Taxes are paid when you make the contributions.
Taxes due at distribution***	Any before-tax contributions, Company matching contributions, and earnings are taxed when you take a distribution, unless you roll over the money.	Your contributions are not taxed at distribution. However, any Company matching contributions and earnings on contributions made by you and your employer are taxable at distribution, unless you roll over the money.	Your Roth 401(k) contributions and earnings are tax-free at distribution if you have held your Roth 401(k) account for at least 5 years and are at least age 59½, have died, or are disabled. Company matching contributions are made before-tax, so they will be taxable at distribution unless you roll over the money to a traditional IRA.
Automatic savings increases	You can elect automatic annual increases to your before-tax savings rate.	Not available.	Not available.
Rollover options (at separation of service)	You can roll over your before-tax money to a traditional IRA or other qualified plan (if the plan permits) without incurring taxes. You may also be eligible to roll over your before-tax money directly to a Roth IRA. Contact Vanguard for more information.	You can roll over your traditional after-tax money and before-tax earnings to a traditional IRA or other retirement plan (if the plan permits) without incurring taxes. You may also be eligible to roll over your traditional after-tax money and the associated earnings directly to a Roth IRA. Contact Vanguard for more information.	You can roll over Roth 401(k) assets to a Roth IRA or another employer plan with a Roth 401(k) feature (if the plan permits).
Required minimum distributions (RMDs)	The IRS requires that you begin taking distributions by April 1 of the year following the year you reach age 70½ or retire, whichever occurs later.	The IRS requires that you begin taking distributions by April 1 of the year following the year you reach age 70½ or retire, whichever occurs later.	The IRS requires that you begin taking distributions by April 1 of the year following the year you reach age 70½ or retire, whichever occurs later. You can avoid taking RMDs by rolling over your Roth 401(k) money to a Roth IRA.

*The IRS limits your annual combined before-tax and Roth 401(k) contributions. For the current IRS limits, go to **vanguard.com/contributionlimits.**

**FICA taxes are deducted when you make contributions on a before-tax, Roth 401(k), or traditional after-tax basis.

***Tax implications: You will be responsible for paying any federal, state, local, or foreign taxes on a distribution or withdrawal from before-tax accounts. A distribution or withdrawal of Roth 401(k) earnings is usually also taxable unless the initial Roth 401(k) contribution was made more than 5 years ago and you are at least age 59½. Early withdrawals may be subject to a 10% federal penalty tax. To the extent required by law, Vanguard will make the appropriate withholding for tax purposes.

Who might benefit from Roth 401(k) contributions

Who	Why
You're financially well-prepared for retirement (high savings, good benefits).	Chances are you'll be in the same or a higher tax bracket in retirement. Your Roth 401(k) contributions would be exempt from taxation if you made your first Roth 401(k) contribution at least 5 years ago and you are at least age 59½.
You contribute the maximum to the plan and want to diversify future tax liability.*	Switching to Roth 401(k) contributions increases your tax-advantaged saving. For example, if you contribute the annual maximum on a before-tax basis, you will owe taxes on this amount, plus any earnings, when you take the money out. Contribute the annual maximum on a Roth 401(k) basis instead, and all of your contributions and earnings will be tax-free at distribution, provided you made your first Roth 401(k) contribution at least 5 years ago and you are at least age 59½.
Your income prevents you from contributing to a Roth IRA.**	You can obtain the advantages of a Roth IRA within your plan, which has no income restrictions comparable to those of the Roth IRA.
You don't earn a lot today—but just wait.	Your career is just getting started. You expect your income—and tax rate—to rise in the years to come.
You pay taxes at a low rate today (10% or 15%).	Making Roth 401(k) contributions would cost you little today and could result in tax savings in retirement.

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**To contribute to a Roth IRA, your modified adjusted gross income cannot exceed IRS limits. For current modified adjusted gross income limits, consult a tax advisor.

Who might not benefit from Roth 401(k) contributions

Who	Why
You're behind on saving and expect Social Security to be the mainstay of your retirement.	Chances are your income will fall in retirement. Consequently, you'll be in a lower tax bracket.
Your pay spikes thanks to big commissions or bonuses.	Your tax rate may be higher this year than in retirement. So you're better off deferring taxes now with before-tax contributions and paying at a lower rate later.
You have children, a family income generally between $20,000 and $50,000, and you receive the earned income tax credit or the additional child tax credit.	Switching to Roth 401(k) contributions would raise your taxable income and could cost you these valuable tax credits. These credits are more valuable than Roth 401(k) contributions would be to you.

Note: There are important factors to consider when rolling over assets to an IRA or leaving assets in an employer retirement plan account. These factors include, but are not limited to, investment options in each type of account, fees and expenses, available services, potential withdrawal penalties, protection from creditors and legal judgments, required minimum distributions, and tax consequences of rolling over employer stock to an IRA.

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vanguard.com/retirementplans > 800-523-1188

We recommend that you consult a tax or financial advisor.

All investing is subject to risk, including the possible loss of the money you invest.

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