

Pre-Tax Contributions

Pre-tax Advantages

- Reduces your taxable income
- Taxes not paid until you take a distribution
- Tax savings equals more take-home pay

Pre-tax Could Be Beneficial If You:

- Are in a high tax bracket and need to lower your taxable income (see example below)
- Are unable to tolerate less take-home pay now
- Retire or need access to your account in five years or less
- Are in a higher tax bracket now than you will be at retirement

Pre-Tax Considerations

- Required minimum 20 percent federal tax and possible state tax due immediately upon withdrawal
- Uncertainty about the assessment of future taxes
- At age 70½ you may be required to begin taking minimum distributions
- Nonspousal beneficiaries subject to specific rules for distribution

	Income	Taxes
Taxable income before contributing	\$35,000	\$5,250
Annual pre-tax contributions (\$200 × 12 months)	\$2,400	-
Taxable income <u>after</u> contribution	\$32,600	\$4,890
Tax Savings	-	\$360

Example for illustrative purposes only. Taxes are based on 2016 tax tables for a single filer. Consult for your tax advisor for specific information.

Please consult your American Trust representative or your tax advisor for more information as each individual situation may vary.

Roth Contributions

Roth Advantages

- Tax free growth
- Great for disposable income or emergencies at retirement
- Passes tax-free to your beneficiaries
- Higher contribution limits than a Roth IRA
- May be rolled into a Roth IRA
- No required minimum distribution provision at age 70½ if rolled into a Roth IRA
- Your contributions and earnings are tax-free once you reach age 59½ and have been investing for five years

Roth Could Be Beneficial If You:

- Are in a lower tax bracket now than at retirement (likelihood of this increases if you have 20 years or more until retirement)
- Can afford less take-home pay now in exchange for paying no taxes later
- Want to leave tax-free money to your beneficiaries
- Have a pre-tax source of funds to use for income, but also need disposable, tax-free income at retirement
- Are age 30 or less and/or just starting to save for retirement
- Can wait for five years and age 59½ to use the money

Roth Considerations

- Contributions do not lower your income taxes
- Less take-home pay (due to taxes)
- Cannot be distributed for loans or hardships
- Five year and age 59½ rules apply to everyone



Contribution Comparisons

\$30,000 in Compensation and 7% Contribution

Pre-tax Contribution	
Gross Income	\$30,000
Subtract 7% Contribution	-\$2,100
Taxable Income	\$27,900
Subtract 25% Tax Rate	-\$6,975
Take-home Pay	\$20,925
Growth of \$2,100 over 25 years at an 8% rate of return	\$159,663
<p>Results: income taxes are owed on the full balance of \$159,663 upon distribution. Assuming 20 percent federal tax and 5 percent state tax, the tax equals approximately \$39,915 (each state tax may differ and require more or less taxes withheld).</p>	

\$50,000 in Compensation and 7% Contribution

Pre-tax Contribution	
Gross Income	\$50,000
Subtract 7% Contribution	-\$3,500
Taxable Income	\$46,500
Subtract 25% Tax Rate	-\$11,625
Take-home Pay	\$34,875
Growth of \$2,100 over 25 years at an 8% rate of return	\$266,105
<p>Results: income taxes are owed on the full balance of \$199,579 upon distribution. Assuming 20 percent federal tax and 5 percent state tax, the tax equals approximately \$66,526 (each state tax may differ and require more or less taxes withheld).</p>	

Roth Contribution	
Gross Income	\$30,000
Subtract 25% Tax Rate	-\$7,500
After-tax Income	\$22,500
Subtract 7% Contribution	-\$2,100
Take-home Pay	\$20,400
Growth of \$2,100 over 25 years at an 8% rate of return	\$159,663
<p>Results: a 7 percent contribution provides for \$525 less in annual take-home pay per year as compared to pre-tax, which equates to \$13,125 over a 25 year period. However, in a Roth IRA, you do not owe any tax on the full \$159,663 when withdrawn.</p>	

Roth Contribution	
Gross Income	\$50,000
Subtract 25% Tax Rate	\$12,500
After-tax Income	\$37,500
Subtract 7% Contribution	-\$3,500
Take-home Pay	\$34,000
Growth of \$3,500 over 25 years at an 8% rate of return	\$266,105
<p>Results: a 7 percent contribution provides for \$875 less in annual take-home pay per year as compared to pre-tax, which equates to \$21,875 over a 25 year period. However, in a Roth IRA, you do not owe any tax on the full \$266,105 when withdrawn.</p>	