Traditional vs Roth 401(k)

> The choice comes down to one question. Is your tax rate higher now or in retirement? This guide shows why, with a worked example.

Traditional and Roth 401(k) accounts get the same growth and the same limits. The only real difference is when you pay tax. That single fact is enough to make the right choice, once you see it clearly.

The one rule that decides it

A traditional 401(k) skips tax now and charges it when you withdraw. A Roth 401(k) pays tax now and withdraws tax-free. If your tax rate is the same on both ends, the two are identical after tax. The math is symmetric.

So the whole decision reduces to one comparison. If your tax rate will be lower in retirement than it is today, traditional wins, because you dodge a high rate now and pay a low one later. If your rate will be higher later, Roth wins. If they are equal, flip a coin.

A worked example you can reproduce

Say you can invest 10,000 dollars of pre-tax income and both accounts grow about 8 times over 30 years. In the traditional account the full 10,000 grows to roughly 81,000 dollars, and if you withdraw at a 22 percent rate you keep about 63,300 dollars.

For a fair Roth comparison, the same pre-tax income is taxed first. At a 24 percent rate today you invest 7,600 dollars, which grows tax-free to about 61,700 dollars. Traditional wins here because the retirement rate of 22 percent is below the 24 percent you would pay now. Set both rates equal in the Traditional vs Roth Calculator and the two results land on the same number.

The myths that trip people up

The most common mistake is comparing the full traditional balance to the full Roth balance and declaring Roth the loser because its balance is smaller. That ignores the tax still owed on the traditional account. Compare after-tax dollars, not headline balances.

The second myth is that Roth is always better because the growth is tax-free. Tax-free growth is only an advantage if your tax rate does not fall in retirement. For many people income drops after they stop working, which quietly favors traditional.

When splitting the difference makes sense

Because future tax rates are genuinely uncertain, many people hold some of each. That way part of your retirement income is taxable and part is tax-free, and you gain flexibility to manage your tax bracket year by year once you are drawing the money down.

Roth also has two edges beyond the rate question. It has no required minimum distributions from the Roth itself in the same way, and paying tax now removes uncertainty about future rates. If you value that certainty, it can justify a Roth tilt even when the pure math is a wash.

> **Key takeaway.** Growth never decides this. Compare your tax rate now against your rate in retirement, and always compare after-tax dollars.

Assumptions

- Both accounts grow at the same return, so growth alone never decides the winner. Only the tax timing does.
- You invest the same take-home cost either way. A fair comparison funds the Roth with after-tax dollars and the traditional with pre-tax dollars.
- Tax rates now and in retirement are estimates. Future tax law can change.

Sources

- IRS, 401(k) plans and Roth account rules
- IRS, retirement topics on contributions