CAN YOU HAVE A ROTH IRA AND 401K?

By: Cheryl Lock - June 9, 2022

Saving for retirement is a marathon, not a sprint. The more you can contribute today, the better off you'll be once you start approaching retirement age.

For many people, contributing to a Roth individual retirement account (IRA) and a 401(k) is a great strategy for contributing more today. While this approach can help maximize tax savings, there are some essential points to understand first.

Can You Contribute to a Roth IRA and a 401(k)?
Many, if not most, retirement investors can contribute to both a Roth IRA and a 401(k) at the same time.

"You can and should have both a Roth IRA and a 401(k)," says Gregory W. Lawrence, a certified financial planner (CFP) and founder of retirement planning firm Lawrence Legacy Group. "Future tax rates are heading higher, possibly much higher, so maxing out both a Roth IRA and a 401(k) will give you more net after-tax dollars in retirement."

If your employer offers a 401(k) plan, you can choose to contribute to either a traditional 401(k) account or a Roth 401(k) account (or both). The difference is when you pay income taxes: Upon making withdrawals in retirement with the former, or when you're making contributions in the present with the former.

Meanwhile, contributions to a Roth IRA are always made after you pay income taxes—and qualified withdrawals in retirement are always tax-free. Here's the catch: You can only contribute to a Roth IRA if your annual income is below certain thresholds:

Your filing status	Your 2021 Income	Your 2022 Income	You May Contribute:
Single, head of household or married filing seperately (and you did not live with your spouse at any time during the year)	Less than $125k	Less than $129k	Up to annual limit
	$125k to $140k	$129k to $144k	A reduced amount
	More than $140k	More than $144k	Zero
Married filing joirntly or qualified widow(er)	Less than $198k	Less than $204k	Up to annual limit
	$198k to $208k	$204k to $214k	A reduced amount
	More than $208k	More than $214k	Zero
Married filing seperately	Less than $10k	Less than 10k	A reduced amount
	More than 10k	More than 10k	No deduction

How to Contribute to a 401(k)
Contributions to a 401(k) are handled by your employer via payroll deductions. In 2022, individuals can contribute up to $20,500 to their account, or $27,000 if they're aged 50 or older.

If your employer offers a 401(k) match, you should save enough to qualify for the maximum amount of matching contributions.

"Remember to not leave your company 401(k) behind when you change jobs," says Christie Whitney, CFP, director of planning at investment advisor Rebalance. "Make sure to roll those dollars over into an IRA or your new company's 401(k) plan, so that you don't lose track of your investments."

401(k) Benefits
- Contributions are taken out of your paycheck before income taxes are calculated, which helps lower your taxable income.
- Your employer may offer matching contributions up to a certain amount.
- Higher annual contribution limits than an IRA.

How to Contribute to a Roth IRA
You open and contribute to a Roth IRA independently of any particular job or employer. There is a much lower IRA contribution limit: $6,000 in 2022, or $7,000 if you are age 50 or older.

IRAs are not eligible for any sort of matching contributions. However, they typically offer a much broader range of investment options than the limited menu of funds offered by the average 401(k) plan.

But it's the freedom from paying income tax on withdrawals that is the Roth IRA's biggest superpower. In addition, there are no mandatory withdrawals once you turn 72—so-called required minimum distributions (RMDs).

"The beauty of being able to contribute to a Roth IRA is that a portion of your retirement savings are not subject to ordinary income tax upon withdrawal, and you are never mandated to start withdrawing," says Whitney.

Roth IRA Benefits
- Tax-free income in retirement
- Flexible investment options
- No mandatory RMD withdrawal requirement

Tax Considerations for a 401(k) and a Roth IRA
While saving in a Roth IRA doesn't offer you any tax advantages today, the future advantages can add up.

"Keep in mind how important—or not—a present-day tax break from income is to your household," says Whitney. "Let's say you earn $80,000 annually. If you put $15,000 into your 401(k), your taxable income for that calendar year then becomes just $65,000."

However, if you contribute the maximum amount to a Roth IRA, you'll still report a household income of $80,000, and the money put into a Roth is never taxed again.

"Imagine years of investment compounding in action, and no mandated time to withdraw the funds, nor tax upon withdrawal," she said.

Except for a few scenarios—like a first-time home purchase or college expenses—there are tax implications for Roth IRAs if funds are withdrawn within five years of the initial contribution.

What Does a Good Combination Retirement Strategy Look Like?
The earlier you can start saving for retirement, the better, but when you start, saving a lot of money in both a 401(k) and a Roth IRA might not be feasible.

"Start by maxing out a Roth IRA while you are in your 20s, and if there is a company 401(k) as well, contribute just up to the amount you need to get your employer's match," Whitney says.

As your income rises, saving on income taxes might become more important to many households. At that point, contributing more aggressively to a 401(k) account should become more attractive.

Planning your strategy this way allows you to end up with both types of accounts in retirement that have been growing for years.

The Bottom Line
Everyone's household income and tax situations differ. But if you can afford to save into both a 401(k) and a Roth IRA and your income allows for it, contributing to both types of accounts is a win-win.

The most important thing is to utilize tax-deferred savings vehicles to the best of your ability and to start as early as possible. Check with your tax preparer or a certified public accountant (CPA) if you're not clear on how your income impacts your eligibility for saving.