Roth IRAs & Roth 401(k)s: What Every Young Professional Should Know

You've probably heard of Roth IRAs or noticed a Roth option in your 401(k) plan. But what does it actually mean—and is it the right choice for you?

If you're a young professional beginning to build your financial future, understanding Roth accounts can help you make smarter decisions today that lead to meaningful advantages tomorrow. Done right, Roth investments can create a bucket of tax-free income to support decades of financial freedom.

Pre-Tax vs. Roth: What's the Difference?

Most retirement savings options fall into one of two categories: Pre-Tax (Traditional) or After-Tax (Roth).

Pre-Tax Accounts (Traditional 401(k), 403(b), Traditional IRA):

- Contributions are made before taxes are taken out, meaning you receive a tax benefit in the year you contribute.
- Your money grows tax-deferred—no taxes are owed as it grows.
- You'll pay taxes at your ordinary income tax rate when you withdraw the money in retirement after age 59 ½.***

Roth Accounts (Roth IRA, Roth 401(k), Roth 403(b)):

- Contributions are made after taxes are paid, so there's no immediate tax benefit.
- Your money also grows tax-deferred—no taxes are owed as it grows.
- Qualified withdrawals in retirement are completely tax-free—including decades of compounding growth.

Why Roth May Make Sense for Young Professionals

When deciding between Roth and Pre-Tax, the general rule is:

If you expect to be in a higher tax bracket in the future, Roth contributions make sense today.

But that's only part of the story. Your future tax bracket depends on two major variables:

1. **Your income** (which often increases as your career progresses)
2. **Tax policy** (which shifts with political and economic change)

If you're in your 20s or 30s, you're probably not at your peak earnings yet. Over the next 10 to 20 years, you're likely to receive raises, promotions, or even make career transitions that increase your income.

In 2025, the top federal marginal tax rate is 37%. While that may feel high, it's historically low. From 1944 to 1963, the top federal rate exceeded 90%! While future tax hikes aren't guaranteed, they're certainly possible.****

So what does that mean for you?

You may be in a uniquely powerful position:

- If your income is relatively low today,
- And today's tax rates are historically favorable,

- Choosing Roth means paying taxes now at a lower rate and never owing taxes on that money again—even after 30+ years of potential growth.

It Doesn't Have to Be All or Nothing

You don't need to choose exclusively between Roth or Pre-Tax. Many 401(k) plans allow you to split your contributions between both, which can be helpful in years when the right answer isn't crystal clear.

However, here's an important caveat: Even if your contributions are designated as Roth, your employer's matching contributions always go into the Pre-Tax portion of your account.

So, even if you split your own contributions 50/50, your overall balance may lean more heavily toward Pre-Tax once employer contributions are included.

> **For example:**
> If you contribute $10,000—split evenly between Roth and Pre-Tax—and your employer matches $5,000 (Pre-Tax only), the result is:
>
> - $5,000 in Roth
> - $10,000 in Pre-Tax
>
> Even though your personal contributions were evenly split, your total account is now two-thirds Pre-Tax.

For young professionals, prioritizing Roth contributions early in their careers can lead to better tax diversification over time.

How to Start Contributing to Roth Accounts

You may have access to one or both of these Roth options:

1. Roth IRA

- **2025 Contribution Limit:** $7,000 (if under age 50)
- **Income Limits for Full Contribution:**
  - Under $150,000 (Single)
  - Under $236,000 (Married Filing Jointly)
  - Phase-Out Ranges Apply Above These Limits
- You can contribute even if your employer doesn't offer a retirement plan.

2. Roth 401(k) or Roth 403(b)

- **2025 Contribution Limit:** $23,500 (if under age 50)
- **No Income Limits:** Contribute regardless of your earnings.
- **Employer Match:** Goes to Pre-Tax side.
- **Check Your Plan:** Not all employer-sponsored plans offer a Roth option—ask HR or review your plan documents.

Final Thoughts

Roth contributions offer one of the clearest long-term tax advantages in financial planning: Tax-free retirement income.

If you're early in your career and in a lower tax bracket, Roth savings allow you to lock in today's rates and build a foundation for decades of tax-free growth.

This can lead to greater control over your retirement withdrawals, reduced tax exposure in later years, and enhanced flexibility when you need it most.

Whether through a Roth IRA, a Roth 401(k), or both—starting early may be one of the smartest financial moves you make.

MATT PISERA, CFP®

ChFC®, CLU®, CLTC®, FSCP®, RICP®, WMCP®

Founder & Financial Planner | Aether Financial Group, LLC

(914) 391-9899

mpisera@aetherfinancialgroup.com

AetherFinancialGroup.com

Schedule Your Zero Meeting

FL Office: 147 E Lyman Ave, Suite E, Winter Park, FL 32789

MD Office: 6905 Rockledge Dr, Suite 900, Bethesda, MD 20817

***Contributions to a Roth IRA may generally be withdrawn at any time without tax consequences. Earnings may generally be withdrawn tax-free if the account is held at least 5 years and withdrawals are made after the account owner reaches age 59 ½. If earnings withdrawals are made before the 5-year period or age 59 ½, income taxes are due, and a 10% federal tax penalty may apply.*

**** Withdrawals made before age 59½ may be subject to ordinary income tax and a 10% early withdrawal penalty, unless an exception applies.*

***** https://www.fidelity.com/learning-center/personal-finance/history-us-income-tax*