COLDSTREAM

RETIREMENT ACCOUNTS

Employer-sponsored retirement plans can be a critical part of your retirement planning, helping you maximize your retirement savings. It's important to understand the different types of plans, your options, and how to use them.

Types of Qualified Plans

TRADITIONAL PRE-TAX 401(K), 403(B) OR 457 ACCOUNT

In a traditional pre-tax 401(k) or similar qualified plan (such as a 403(b) or 457 plan), you contribute pre-tax dollars and can save and invest with your taxes deferred. This allows you to lower your current taxable income and grow your savings faster than in a taxable account.

Withdrawals in retirement from a traditional 401(k) account are subject to regular income tax, and you must begin taking Required Minimum Distributions (RMDs) when you reach age 73.

ROTH ACCOUNT

In a Roth retirement plan, your plan contributions are made after taxes, but in addition to savings and investments growing tax-deferred, all qualified withdrawals are free of federal and — in most cases, state — taxes. Roth contributions have no immediate tax benefit, but the future tax savings can be significant.

If your plan offers a Roth option, you can divide your contributions between the traditional plan and your Roth account. The investment options are the same in both types of account.

Traditional Versus Roth Retirement Savings

Trudy saved in a traditional 401(k) and was able to save more, since her savings were made pre-tax, but all of her contributions and earnings will be taxed upon withdrawal. Ruth saved in a Roth 401(k): because her contributions were made after tax, she wasn't able to save as much each month. However, only her contributions were taxed; all of her earnings are free of taxes upon withdrawal.

The chart above assumes both individuals saved $100 per month for 30 years at a 6% annualized rate of return. Because Roth contributions are made after-tax, the post-tax Roth contribution is assumed to be $75 per month at a 25% tax rate. Assumes all withdrawals are qualified. Actual returns and principal value will fluctuate. This chart is for illustrative purposes only and is not representative of any particular investment.

Contributions & Withdrawals

MAKING CONTRIBUTIONS

Employees can contribute up to $23,500 annually to a 401(k), 403(b), or 457 account in 2025. This maximum contribution includes both traditional and Roth accounts combined. Employees over the age of 50 can make catch-up contributions of up to an additional $7,500, and those age 60-63 can make catch-up contributions up to a higher limit of $11,250.

EMPLOYER CONTRIBUTIONS

Some employers offer to contribute to employee retirement accounts. This may be in the form of discretionary profit-sharing contributions, or as matching contributions, in which the employer matches a portion of employee contributions. If your company offers a match, you should contribute at least the amount required to maximize your matching contribution.

Employer contributions are always directed to your pre-tax retirement savings. Some matching contributions may have a vesting schedule applied, in which you take ownership of the funds over time as your tenure with the organization increases.

WITHDRAWALS

In order for your Roth withdrawals to be federally tax-free, you must have held the account for at least five years and be at least age 59 ½ when you begin withdrawing your savings.

You must begin taking Required Minimum Distributions (RMDs) from your retirement account(s) when you reach age 73. Roth IRAs do not require RMDs, so you can roll any funds in a Roth account into a Roth IRA to avoid RMDs. Learn more about RMDs on the IRS website here.

Coldstream can help.

Our planners are in your corner; we have decades of experience and can help you explore options and make the most of your employer benefits.

Contact us to learn more about how we may be able to help. Reach out at 452.283.1600 or info@coldstream.com. We look forward to learning more about the legacy you want to create.