



# No-Frills Money Skills Video Series

## Episode 2: Ways to Save—401(k) and Roth 401(k) (11:12)



View Episode 2 at <https://www.stlouisfed.org/education/no-frills-money-skills-video-series/episode-2-ways-to-save-401k-and-roth-401k>.

### 1. What are some advantages of having an account at a bank or other financial institution?

Answers include the following:

- Some accounts are easy to open.
- You have ready access to your money (liquidity).
- Many accounts (most commonly savings and checking accounts) are insured through the FDIC, the Federal Deposit Insurance Corporation.

### 2. What is the purpose of 401(k) and 403(b) accounts?

401(k) and 403(b) accounts are employer-sponsored retirement savings accounts that allow individuals to save some of their income before paying taxes on that income. 403(b) accounts are available only to employees of nonprofit organizations.

### 3. What is the main difference between regular 401(k), 403(b), and IRA accounts and Roth versions of each?

Money saved in Roth retirement accounts is deposited after paying taxes on that money (income). Because the taxes have already been paid, no additional taxes will have to be paid when money is withdrawn from the account during retirement.

### 4. What are some benefits of participating in an employer-sponsored savings plan?

Answers include the following:

- Some employers match your savings up to a certain amount.
- You can make direct deposits to these plans from your paycheck on a regular basis.
- There may be tax advantages for saving through these plans.

### 5. What are advantages and disadvantages of traditional and Roth retirement accounts?

#### *Traditional accounts*

**Advantages:** With pre-tax saving, you have higher take-home pay while working. Your employer may match your savings.

**Disadvantages:** Your savings is taxable upon withdrawal in retirement.

#### *Roth accounts*

**Advantages:** Your savings is not taxable upon withdrawal at retirement. Your employer may match your savings.

**Disadvantages:** When you pay taxes before saving, you have lower take-home pay while working.