

Table 3: Summary of Example 1

Panel A: Possible Outcomes			
Tax rate when account is liquidated (t_n)	Amount to Which \$1 Grows Over Investment Horizon (V_n)		
	1.50 (26% prob.)	2.65 (48% prob.)	4.66 (26% prob.)
24% (20% prob.)	Roth's ATA = \$11,400 Trad's ATA = \$11,400	Roth's ATA = \$20,140 Trad's ATA = \$20,140	Roth's ATA = \$35,416 Trad's ATA = \$35,416
28% (40% prob.)	Roth's ATA = \$11,400 Trad's ATA = \$10,800	Roth's ATA = \$20,140 Trad's ATA = \$19,080	Roth's ATA = \$35,416 Trad's ATA = \$33,552
32% (40% prob.)	Roth's ATA = \$11,400 Trad's ATA = \$10,200	Roth's ATA = \$20,140 Trad's ATA = \$18,020	Roth's ATA = \$35,416 Trad's ATA = \$31,688
Panel B: Statistical Characteristics of Random Variables			
	Mean	Variance	Standard deviation
t_n (future tax rate)	28.80%	0.0896%	2.99%
V_n (what \$1 grows to)	2.8736	1.3443	1.1594
Roth account's ATA	\$21,839	\$77,645,557	\$8,812
Trad. account's ATA	\$20,460	\$69,007,746	\$8,307

Each cell of Panel A shows the after-tax accumulations (ATAs) of a Roth account contribution and a traditional account contribution. The individual (Mary) has \$10,000 of before-tax income to contribute (C_0) and a 24% current tax rate (t_c). Panel B shows statistical characteristics of the random variables. See the appendix for supporting calculations.