An after-tax savings option within your retirement plan

What are Roth 401(k) contributions?

Unlike traditional 401(k) pretax contributions, Roth 401(k) contributions are made with after-tax dollars. That means your Roth 401(k) contributions are taxed up front, so you don't have to worry about paying federal income taxes when you take a qualified withdrawal or distribution.[1] With traditional 401(k) pretax contributions, money goes into your account before taxes are taken out. Alternatively, if you receive a qualified distribution from your retirement plan, your Roth contributions and earnings are tax and penalty free. This may be an attractive option if you expect to be in a higher tax bracket in retirement. Additionally, unlike a Roth IRA, there is no income limitation to determine eligibility to make Roth 401(k) contributions. Both 401(k) pretax and Roth 401(k) contributions are subject to IRS and plan limits.

Contributing to your retirement plan

If your plan permits, you may elect to defer all or a portion of your eligible pay as Roth 401(k) contributions to the plan. Once made, any Roth 401(k) contributions can't be recharacterized as or changed to traditional 401(k) pretax contributions.

Though different in significant ways, Roth 401(k) contributions are subject to many of the same rules as traditional 401(k) pretax contributions.

The following are three ways to take advantage of your qualified retirement using these two types of contributions:

- **Make traditional 401(k) pretax contributions:** Contributions made with pretax dollars give you the benefit of reducing your taxable income today, and you don't pay taxes until you take a withdrawal or distribution. Both your contributions and earnings will be taxed based on your tax rate at the time of distribution.
- **Make Roth 401(k) contributions:** Contributions are made with after-tax dollars. That means your contributions to the plan don't lower your current taxable income; however, at retirement, you may be able to enjoy the benefit of making tax-free qualified withdrawals of contributions and earnings.[1]
- **Make both traditional 401(k) pretax contributions and Roth 401(k) contributions:** Contributing a combination of pretax and Roth amounts allows you to customize your retirement savings and withdrawals based on your life events and tax situation.

The decision to make pretax or Roth contributions depends on your personal circumstances. You must weigh the value of tax-free withdrawals at retirement, a key benefit of Roth 401(k) contributions, against the value of reducing your current taxable income with traditional 401(k) pretax contributions. To help you with this decision, consider contacting a tax consultant.

In this document, all tax disclosures regarding Roth 401(k) contributions are limited to the federal income tax code and, in particular, all references to tax-free treatment of qualified distributions are intended to refer to the treatment of such distributions at the federal level only.

1 Qualified distribution from a Roth 401(k) account (including the five-year rule)—A qualified distribution from a Roth 401(k) account in the plan is a payment made after the participant attains age 59½ (or after death or disability) and after the Roth 401(k) account in the plan has been established for at least five years. In general, in applying the five-year rule, count from January 1 of the year the first contribution was made to the Roth 401(k) account. Participants should contact their plan consultant or financial or tax advisor for specific details on the five-year rule and whether any special rule may apply.

Considerations for your decision

Making Roth 401(k) contributions is a decision that you need to make based on your own personal circumstances, including:

- Your age
- Your income
- Your current tax bracket and your expected tax bracket when you retire
- The number of years until you retire
- Your expected financial needs when you retire
- Your expected sources of retirement income

Check your income-tax bracket. If you're currently in a lower federal income-tax bracket, and you think it'll stay the same or increase by the time you retire, you might consider making Roth 401(k) contributions now. Paying income tax on the money you contribute today allows you to take advantage of a lower tax rate now, rather than a potentially higher rate later.

Roth 401(k) contributions might also be a good option for higher-income earners who haven't been eligible to contribute to a Roth IRA in the past, due to income restrictions.

Contact your tax consultant for advice regarding your specific tax situation, and speak to your plan administrator to learn how you can start making Roth 401(k) contributions.

More Roth 401(k) account facts

What's a qualified distribution from a Roth 401(k) account? A qualified distribution is generally a distribution that's made after a five-year period of participation (defined below) and is either: 1) made after attainment of age 59½, death, or due to disability. A qualified distribution from a Roth 401(k) account isn't taxable.

How do you calculate the five-year period for a qualified distribution? The five-year period begins on the first day of the year in which you first make a Roth 401(k) contribution, and it ends after five consecutive years have passed. This is referred to as the five-year clock, so the earlier you start the clock, the easier it is to meet the requirement. If you make a direct rollover from a Roth 401(k) account to another plan, make sure your Roth start year is provided to the recipient plan, so your five-year clock isn't reset.

What happens if my distribution isn't a qualified distribution? If your Roth 401(k) distribution isn't considered qualified, the earning portion of your distribution is taxable. However, the portion consisting of Roth 401(k) contributions is treated as basis and isn't taxable. You may be subject to a 10% penalty tax on the earnings portion of your distribution if you haven't attained age 59½, unless an exception applies.

Can I make Roth 401(k) and Roth IRA contributions in the same year? Technically, yes, although your personal income limit may prevent you from making a Roth IRA contribution for any year. If you're a high-income earner, you may only be eligible to make Roth 401(k) contributions to your retirement plan.

What's an in-plan Roth conversion? An in-plan Roth conversion, if permitted by the plan, allows you to convert your traditional pretax and/or traditional after-tax account balance to a Roth 401(k) account within the plan. Review your plan documents to learn more.

Is an in-plan Roth conversion a taxable event? Yes, taxable amounts converted to Roth 401(k) through an in-plan Roth conversion will be taxed in the year of the in-plan Roth conversion. You'll need to access additional funds, and may have to pay estimated taxes and/or increase outside withholdings to avoid tax penalties. However, when you make a qualified Roth 401(k) distribution, your Roth 401(k) contributions and earnings are tax free.

What happens if I make an in-plan Roth conversion, but change my mind later? An in-plan Roth conversion is irrevocable and can't be changed.

What happens if you withdraw Roth 401(k) amounts within five years of the conversion and before reaching age 59½? If you withdraw Roth 401(k) amounts within five years of the conversion and before reaching age 59½, you'll owe a 10% early penalty tax on the portion of the withdrawal attributable to the conversion. In addition, you may have to pay ordinary income tax and a 10% early penalty tax on the portion of the withdrawal that consists of Roth earnings.

Each in-plan Roth conversion has its own separate five-year clock for purposes of determining whether a withdrawal of converted assets is subject to a 10% early penalty tax. However, one five-year clock applies to Roth assets for purposes of determining whether a distribution is a qualified distribution.

Roth 401(k)

Retirement contributions: how they differ

	401(k) pretax	Roth 401(k)[2]	Roth IRA	401(k) after tax[2]
Contribution type	Pretax	After tax	After tax	After tax
Employer match?[2]	Yes	Yes[3]	Inapplicable	Yes
Contribution limits	$19,500; $26,000 for age 50+[4]	$19,500; $26,000 for age 50+[4]	$6,000; $7,000 for age 50+	Up to $57,000[5]
Income restrictions	Inapplicable	Inapplicable	Based on modified adjusted gross income and filing status Single filers: $124,000–$139,000; Married filing jointly: $196,000–$206,000[6] (Roth IRA conversions are no longer subject to income restrictions).	Inapplicable
Investment earnings	Tax-deferred earnings	Tax-free earnings[7]	Tax-free earnings[7]	Tax-deferred earnings
Taxes	Pay taxes on contributions and earnings at time of distribution; reduces current tax liability	Pay taxes on contributions immediately; earnings distributed tax free for qualified distributions	Pay taxes on contributions immediately; earnings distributed tax free for qualified distributions	Pay taxes on contributions immediately; pay taxes on earnings at time of distribution
Access to money during employment	Loans and in-service withdrawals may be available.[2]	Loans and in-service withdrawals may be available.[2]	Special withdrawal rules apply to Roth IRAs.	Loans and in-service withdrawals may be available.[2]
Distributions	Contributions and earnings are taxed at distribution; federal, state, and local income tax may apply; penalty of 10% for distributions prior to age 59½ may apply.	Tax free if qualified distribution A qualified distribution must meet two conditions: 1 Made after attainment of age 59½, death, or becoming totally disabled **AND** 2 Roth 401(k) account must be in existence for five years beginning with first taxable year a Roth 401(k) contribution was made	Tax free if qualified distribution A qualified distribution must meet two conditions: 1 Made after attainment of age 59½, death, becoming totally disabled, or being first time home buyer ($10,000 lifetime limit) **AND** 2 Roth IRA account must be in existence for five years beginning with first taxable year a Roth IRA contribution was made	Distribution of contributions is tax free; earnings are taxed at distribution; federal, state, and local income tax may apply; penalty of 10% may apply to distribution of earnings prior to age 59½.
Required minimum distributions	In general, age 72,[8] unless still employed (unless 5% owner)	In general, age 72,[8] unless still employed (unless 5% owner)	Inapplicable, except for distributions made following death of the Roth IRA account holder	In general, age 72,[8] unless still employed (unless 5% owner)
Rollovers	Can be rolled over into another qualified retirement plan, in-plan Roth rollover,[2] or into a traditional IRA or Roth IRA[9]	Can be rolled over to another Roth 401(k) account[2, 10] or a Roth IRA	Can only be rolled over to another Roth IRA[11]	Can be rolled over into another qualified retirement plan, in-plan Roth rollover,[2] or into a traditional IRA or Roth IRA[12]

2 If the plan allows. **3** Employer match of a Roth 401(k) contribution is made on a pretax basis, so you will owe taxes on those contributions and earnings when distributed from the plan. They will be held separately from your Roth 401(k) contributions. **4** Total annual contribution through traditional pretax contributions, Roth 401(k) contributions, or a combination of both. **5** Annual contributions to all of your accounts include elective deferrals, employee contributions, and employer matching, discretionary, and forfeiture account contributions. **6** You are allowed a prorated contribution if your income falls within the phase-out range shown. If your income exceeds the income range, you will not be eligible to make a Roth IRA contribution. **7** Based on qualified distribution rules. **8** For individuals who attain age 70½ after December 31, 2019. **9** Must be included in income. **10** Any nontaxable amounts require direct rollover. **11** Only one rollover in any 12-month period. **12** Taxable amount must be included in income.

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