

ROTH 401(k) FAQs

The new Roth 401(k) feature in your plan allows you to invest after-tax dollars (allowing them to grow on a tax-deferred basis) and take qualifying distributions tax-free. The following questions and answers will help you decide if Roth 401(k) contributions are right for you.

Q. What is the difference between regular 401(k) contributions and Roth 401(k) contributions?

A. When you make a regular 401(k) deferral, the amount is taken out of your pay on a pre-tax basis. The tax is deferred until your account is distributed to you, at which time your contributions and investment earnings are subject to income tax.

A Roth 401(k) contribution is made on an after-tax basis, meaning that you've already paid current income tax on it. Since it was taxed at the time of deferral, it won't be taxed again when it is later distributed to you. And if you meet several qualifications, the investment earnings on your deferrals will not be taxed when you receive them. So, the earnings can be tax-free, not just tax-deferred.

Q. Who is eligible to make these contributions?

A. If you are eligible to contribute to your 401(k) plan and your plan permits them, you are eligible to make Roth 401(k) contributions.

Q. Can I make both regular 401(k) contributions and Roth 401(k) contributions at the same time?

A. Yes. Your plan's recordkeeper will maintain separate accounting for these two types of contributions.

Q. Can I have a Roth IRA and also make Roth 401(k) contributions to my 401(k) plan?

A. Yes.

Q. How do the Roth IRA and Roth 401(k) contribution limits differ?

A. In 2020, you may contribute up to \$6,000 to a Roth IRA, plus \$1,000 as a catch-up contribution if you are at least age 50. In your 401(k) plan, you can contribute up to \$19,500 (plus \$6,500 as a catch-up if you're at least age 50).

The key point is that your regular (pre-tax) 401(k) contributions and your Roth 401(k) (after-tax) contributions both count toward the \$19,500 limit in 2020 (\$26,000 if making catch-up contributions).



Q. Is there an income limitation for making Roth 401(k) contributions?

A. No. You are not eligible to contribute to a Roth IRA if your gross income exceeds certain limits, but those income restrictions do not apply to Roth 401(k) contributions.

Q. When must I designate a deferral as a Roth 401(k) contribution?

A. You must designate your contribution as a Roth 401(k) contribution at the time the deferral is made. You will need to complete and submit the proper form to your plan administrator in order to begin making Roth 401(k) contributions.

Your designation of contributions as Roth 401(k) deferrals is irrevocable. This means that you may not change your designation of specific contributions as Roth 401(k) contributions after they've been made to the plan.

You may, of course, change your contribution rate and any split between regular 401(k) contributions and Roth 401(k) contributions as often as the plan permits. See your Plan Highlights for more information.

Q. Is there a vesting schedule applied to my Roth 401(k) deferrals?

A. No, because you are always 100% vested in your own contributions, just like your regular 401(k) deferrals.

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Q. Will my Roth 401(k) contributions be eligible for any company match?

A. Employers may or may not match Roth 401(k) contributions. Check with your Plan Administrator.

Q. Can I convert my pre-tax 401(k) contributions to Roth 401(k) contributions?

A. Yes, you may convert some or all of your pre-tax amounts at any time, if your plan permits such conversions. Unlike a Roth IRA, conversions within the plan are irrevocable. You will also owe taxes on the converted amount.

Q. Will distribution of my Roth 401(k) contributions be non-taxable?

A. The distribution of your contributions will be tax-free, since you already paid income tax on them when they were made to the plan.

In order for the earnings on those contributions to be tax-free, they must be distributed only after you reach age 59½, you become disabled, or your death. Also, your Roth 401(k) contributions must have been in the plan for at least five years from when you first made a Roth 401(k) contribution.

Q. When does the five-year period start?

A. The five-year period begins on the 1st day of the year in which you make your first Roth 401(k) contribution. Contributions made in a later year do not start a new five-year waiting period.

Q. What happens to my Roth 401(k) contributions when I terminate employment?

A. Your Roth 401(k) account balance may be left in your current plan, rolled over into a Roth IRA of your choice, or to another employer’s 401(k) plan if that plan accepts Roth 401(k) deferrals.

To receive your distribution tax-free, it must be made more than five years after your Roth 401(k) account was established and must be on account of attainment of age 59½, death or disability. If you are under age 59½, you may have an early distribution tax penalty of 10%.

Q. Will I have to take required distributions of my Roth 401(k) contributions beginning at age 70½?

A. The age for taking required minimum distributions from traditional and Roth 401(k)s, as well as traditional IRAs, has recently been raised to age 72. (Note that a Roth IRA has no mandatory distribution requirement.)

Q. Can I withdraw the earnings on my Roth 401(k) contributions to use them to buy my first home, without tax or penalty?

A. No. That provision is available only in Roth IRAs.

Wherever your retirement goals take you, we can help you get there.

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Future tax laws can change at any time and may impact the benefits of the Roth 401(k). Its tax treatment may change.

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