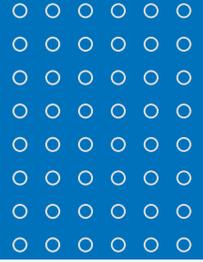


Roth 401(k) Contributions

Questions and answers to help you decide



More than six out of 10 households had a tax-advantaged retirement account at the end of 2021.* Retirement savers found the tax-free nature of the Roth IRA, and the fact that there are no required minimum withdrawals, very attractive.

Now, if you don't qualify for a Roth IRA, or just want to save more for retirement, you can take advantage of many Roth features inside your 401(k) plan. The combination of regular 401(k) and Roth 401(k) contributions is a powerful tool for enhancing your retirement savings outlook.

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.

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

When you participate in your 401(k) plan, you are electing to defer receiving part of your pay and placing it in a retirement savings plan. You instruct your employer to put that deferral amount into a plan account for you.

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.

Who is eligible to make these contributions?

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

Can I make both pre-tax 401(k) contributions and Roth 401(k) contributions at the same time?

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

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

Yes.

*The 2022 Investment Company Fact Book, 62nd edition ©2022, Investment Company Institute.

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

In 2023, you may contribute \$6,500 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 \$22,500 in 2023 (plus \$7,500 as a catch-up if you're at least age 50).

The key point is that your pre-tax 401(k) contributions and your after-tax Roth 401(k) contributions both count toward the \$22,500 limit in 2023 (\$30,000 if eligible to make a catch-up contribution).

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

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.

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

You must designate your contribution as a Roth 401(k) contribution at the time the deferral is made. As a practical matter, 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.





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

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

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

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

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

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.

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

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.

When does the five-year period start?

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.

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

Your Roth 401(k) account balance may be 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.

Sources: irs.gov and Investopedia (<https://www.investopedia.com/terms/r/roth401k.asp>)

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To receive your distribution tax-free, it must be made more than five years after your Roth 401(k) account was established and your distribution must be on account of attainment of age 59½, death or disability.

If you do not roll over your Roth 401(k) account or meet the tax-free distribution requirements in the previous sentence, your investment earnings may be subject to income tax. If you are under age 59½ you may also have an early distribution penalty of 10%.

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

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 (a Roth IRA has no mandatory distribution requirements).

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

No. That provision is available only in Roth IRAs. However, parents may now withdraw up to \$5,000 each from their respective retirement plans or IRAs, upon the birth or adoption of a child, without the 10% early withdrawal penalty. However, you may still be subject to income taxes, if applicable. Consult with a tax or financial planning professional for guidance regarding your specific situation.

If you have additional questions, contact your Plan Administrator or Benefits Representative.

