

Roth 401(k) Contributions

YOUR QUESTIONS...ANSWERED!

Your retirement plan is a valuable benefit program offered to employees. To help you achieve a financially secure retirement, your plan may give you the option to choose how your salary contributions will be taxed, either on a pre-tax or an after-tax “Roth” basis. In this handout, we answer some questions you may have about Roth 401(k) contributions.

Q: WHAT IS A ROTH 401(K) CONTRIBUTION?

A: Roth 401(k) contribution is a type of elective contribution that you can make to your retirement plan, and provides you with more flexibility in your retirement planning. For example, you may choose to contribute all your salary contributions on a Regular (pre-tax) basis, all on a Roth (after-tax) basis, or a combination of the two. Any combination of contributions, however, may not exceed the maximum contribution limit set annually by the IRS (\$23,500 for 2025). If you are age 50 or over, you may also make Roth catch-up contributions (up to \$7,500 for 2025).

Q: HOW ARE CONTRIBUTIONS TAXED?

A: Regular (pre-tax) contributions are withheld from your paycheck before federal and state taxes are calculated;

therefore, fewer taxes are taken out of your paycheck. When you withdraw Regular contributions from the plan, you are taxed at the ordinary income-tax rate on both the Regular contributions and any accumulated earnings.

On the other hand, Roth (after-tax) contributions are withheld from your paycheck after federal and state taxes are calculated; therefore, Roth contributions are subject to tax withholding just like your regular pay. When you withdraw Roth contributions from the plan, you receive both the Roth contributions and any earnings tax free, assuming certain tax law requirements are met.

Q: WHAT IS A “QUALIFIED DISTRIBUTION”?

A: Distributions of Roth contributions and any earnings are considered “Qualified Distributions” if:

- The funds are distributed after you reach age 59½ or on account of death or disability and
- The distribution is made after five tax years have elapsed, starting with the year the first Roth contribution was made

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If the distribution is not “Qualified”, earnings associated to the Roth contributions will generally be subject to income tax and, possibly, to a 10% tax penalty.

Q: HOW ARE MANDATORY DISTRIBUTIONS TREATED?

A: ADP or ACP refunds are not considered qualified distributions; therefore, they are taxed as ordinary income. No penalty applies.

Roth contributions are subject to the same Required Minimum Distribution (RMD) rules as other 401(k) contributions, which start at age 72. Unless the current law is changed, Roth IRAs, however, are exempt from these distributions rules. So, it may be beneficial to roll the Roth portion of your account to a Roth IRA before turning 72 so that you can avoid taking an RMD on that portion of your account.

Since you may have both Roth and non-Roth assets, if you wish to rollover your balance following severance of employment, you may decide to establish two separate IRA accounts (a regular IRA for non-Roth assets and a Roth IRA for the Roth portion of your account). However, you also have the choice to rollover your pre-tax, non-Roth 401(k) assets to a Roth IRA, but the cost is immediate recognition of income and payment of the income tax due.

Unless you already have an existing Roth IRA, the 5 year clock starts over in the year of your rollover to the Roth IRA; therefore, you must keep the funds in the Roth IRA for another 5 years before the earnings are no longer taxable. If you already have an existing Roth IRA, the rollover assets will follow the existing Roth IRA 5 year clock.

Q: WHAT ABOUT ROLLOVER PORTABILITY?

A: You may roll a Roth 401(k) balance to another Roth 401(k) (if the plan allows) or to a Roth IRA, but you cannot rollover from a Roth IRA to a Roth 401(k).

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