Tax Exempt & Government Entities
EMPLOYEE PLANS

Designated Roth Accounts

under 401(k), 403(b) or governmental 457(b) plans

"Is it better for you to pay the tax on your retirement now, while you're working, or later during retirement?"

A designated Roth account is a separate account under 401(k), 403(b) or governmental 457(b) plans:

- to which designated Roth contributions are made, and
- for which separate accounting of contributions, gains and losses is maintained.

An advantage of a designated Roth account is that you pay tax on your contributions now, but later, when you receive a qualified distribution from the account, it is tax-free. Less tax on your plan distributions could mean more money in your pocket during your retirement.

Designated Roth contributions are elective contributions that, unlike pre-tax elective contributions, are currently includible in gross income — you pay tax on these contributions now. Your plan must specifically permit you to make these contributions. If a 401(k), 403(b) or governmental 457(b) plan provides for designated Roth contributions, it must also offer pre-tax elective contributions. You can contribute to a designated Roth account even if your income is too high to be able to contribute to a Roth IRA.

Similar to a Roth IRA, qualified distributions from a designated Roth account, including all earnings, are tax-free. Unlike a Roth IRA, distributions from a designated Roth account must begin when you turn age 70½, unless you are still working and not a 5% owner of the company sponsoring the plan.

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Review the following chart for comparisons of contribution limits, taxation of withdrawals, income limits and more, between a designated Roth account, a Roth IRA and a pre-tax elective contribution account.

Which types of retirement accounts are right for you?

PLAN FEATURE	DESIGNATED ROTH ACCOUNT	ROTH IRA	PRE-TAX ELECTIVE CONTRIBUTION ACCOUNT
Contributions	Designated Roth employee elective contributions are made with after-tax dollars.	Roth IRA contributions are made with after-tax dollars.	Traditional pre-tax employee elective contributions are made with pre-tax dollars.
Income Limits	No income limitation to participate.	Income limits[1]: ▪ Married \$199,000 ▪ Single \$135,000.	No income limitation to participate.
Maximum Elective Contributions	Combined[2] employee elective contributions limited to: ▪ \$18,500 (\$24,500 for individuals 50 or over).	Contribution limited to: ▪ \$5,500 (\$6,500 for individuals 50 or over).	Same combined limit as designated Roth account.
Taxation of Withdrawals	A withdrawal of contributions and earnings is not taxed if it is a qualified distribution —the account is held for at least 5 years and made: ▪ because of disability, ▪ after death, or ▪ after attainment of age 59½.	Same as designated Roth account; and can have a qualified distribution for a first-time home purchase.	Withdrawals of contributions and earnings are subject to federal and most state income taxes.
Required Distributions	Distributions must begin no later than age 70½, unless still working and not a 5% owner.	No requirement to start taking distributions while owner is alive.	Same as designated Roth account.

[1]All dollar limitations are for 2018. Visit www.irs.gov/retirement for annual updates in dollar limitations.

[2]This limitation is by individual, rather than by plan. Although permissible to split the annual employee elective contribution between designated Roth contributions and pre-tax elective contributions, the combination cannot exceed the deferral limit — \$18,500 in 2018 (\$24,500 if age 50 or over).

What are general concerns about designated Roth contributions?

Q. Can I make both pre-tax elective and designated Roth contributions in the same year?

A. Yes. You can contribute to both a designated Roth account and a pre-tax elective contribution account in the same year in any proportion you choose. However, the combined amount of all elective contributions you make in any one year is limited to \$18,500. An additional \$6,000 in catch-up contributions, for persons 50 or older, can also be allocated between the pre-tax and designated Roth accounts. 403(b) and governmental 457(b) plans have special catch-ups.

Q. Can my employer match my designated Roth contributions?

A. Yes. Your employer can make matching contributions on your designated Roth contributions. However, only your designated Roth contributions can be allocated to the designated Roth account. The matching contributions must be allocated to a pre-tax account.

Q. Can I change my mind and have designated Roth contributions treated as pre-tax elective contributions?

A. No. Once you designate contributions as Roth contributions, you cannot later change them to pre-tax elective contributions.

Q. Does my employer need to establish a new account under my 401(k), 403(b) or governmental 457(b) plan to receive my designated Roth contributions?

A. Yes. Designated Roth contributions must be kept completely separate from previous and current 401(k), 403(b) or governmental 457(b) pre-tax elective contributions. Your employer must establish a separate account for each participant making designated Roth contributions.

What should you know about designated Roth account distributions?

Q. What is a qualified distribution from a designated Roth account?

A. A qualified distribution is generally a distribution made after a 5-taxable-year period of participation, and is either:

- made on or after the date you attain age 59½,
- made on or after your death, or
- attributable to your being disabled.

A qualified distribution from a designated Roth account is not includible in your gross income.

Q. What happens if I take a distribution from my designated Roth account before the end of the 5-taxable-year period?

A. If you take a distribution from your designated Roth account before the end of the 5-taxable-year period, it is a nonqualified distribution. (The 5-taxable-year period of participation begins on the first day of your taxable year for which you first made designated Roth contributions to your plan. It ends when 5-consecutive-taxable-years have passed.) You must include the income portion of the nonqualified distribution in gross income and it may be subject to the early distribution tax. However, the basis (or contributions) portion of the nonqualified distribution is not included in gross income. The basis portion of the distribution is determined by multiplying the amount of the nonqualified distribution by the ratio of designated Roth contributions to the total designated Roth account balance.

Example

If a nonqualified distribution of $5,000 is made from your designated Roth account when the account consists of $9,400 of designated Roth contributions and $600 of earnings, the distribution consists of $4,700 of designated Roth contributions (that are not includible in your gross income) and $300 of earnings (that are includible in your gross income).

Q. Since I make designated Roth contributions from after-tax income (already taxed income), can I make tax-free withdrawals from my designated Roth account at any time?

A. No. The same restrictions on withdrawals that apply to pre-tax elective contributions also apply to designated Roth contributions. If your plan permits distributions from accounts because of hardship, you may choose to receive a hardship distribution from your designated Roth account. The hardship distribution will consist of a pro-rata share of earnings and basis and the earnings portion will be included in gross income unless you have had the designated Roth account for 5 years and are either disabled or over age 59½.

Q. Is a distribution from my designated Roth account for reasons beyond my control (for example, plan termination or severance from employment) a qualified distribution even though it does not meet the criteria for a qualified distribution?

A. No. If you have not held the account for more than 5 years or if the distribution is not made after death, disability or age 59½, then the distribution is not a qualified distribution. However, you could roll the distribution over into a designated Roth account in another plan or into your Roth IRA. A transfer to another designated Roth account must be made through a direct rollover.

What should you know about in-plan Roth rollovers?

Q. What is an "in-plan Roth rollover"?

A. An in-plan Roth rollover is a distribution from one or more of your retirement accounts (that don't hold designated Roth contributions) that you roll over to your designated Roth account within the same plan.

Q. Which retirement plans may offer in-plan Roth rollovers?

A. Any plan that permits designated Roth contributions can offer in-plan Roth rollovers.

Q. Who is eligible to make an in-plan Roth rollover?

A. Participants, surviving spouse beneficiaries and alternate payees (who are current or former spouses) are eligible to make an in-plan Roth rollover in a plan offering these rollovers. However, the individual making the in-plan Roth rollover must be eligible for a distribution from the non-Roth account.

Q. How can I make an in-plan Roth rollover?

A. If your plan allows in-plan Roth rollovers, you can make:

- a direct rollover — by asking the plan trustee to transfer an eligible rollover distribution from your non-Roth account or accounts in the plan to your designated Roth account in the same plan; or
- a 60-day rollover — by having the plan distribute an eligible rollover distribution to you from your non-Roth account or accounts in the plan and then depositing all or part of that distribution to your designated Roth account in the same plan within 60 days. Since designated Roth accounts hold only after-tax contributions (and earnings on those contributions), any untaxed amount rolled into a designated Roth account from a non-Roth account must be included in your gross income.

IRS Resources for Retirement Plans Information

IRS Tax Information Publications

- Publication 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)
- Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans) For Employees of Public Schools and Certain Tax-Exempt Organizations
- Publication 575, Pension and Annuity Income
- Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs)
- Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs)
- Publication 4222, 401(k) Plans for Small Businesses
- Publication 4531, 401(k) Plan Checklist
- Publication 4482, 403(b) Tax-Sheltered Annuities for Participants
- Publication 4483, 403(b) Tax-Sheltered Annuities for Sponsors
- Publication 4674, Automatic Enrollment 401(k) Plans for Small Businesses
- Publication 4546, 403(b) Plan Checklist

Employee Plans Assistance

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- Customer Account Services at 877-829-5500

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