THE ROTH 401(k)

The Roth 401(k) feature permits eligible plan participants, regardless of their income, to make after-tax contributions to a Roth 401(k) account. You may choose to contribute all your contributions to a traditional pre-tax 401(k) account or all your contributions to an after-tax Roth 401(k) account, or a combination of both.

Your pre-tax and after-tax contributions are kept in the same 401(k) plan, but in separate accounts for accounting and tax purposes. Your account statements will show the traditional pre-tax 401(k) balances and the after-tax Roth 401(k) balances separately.

In addition, your plan may offer an in-plan conversion feature, which allows participants to convert pre-tax, after-tax, and certain employer contributions into Roth 401(k) accounts. Amounts converted that have not been previously taxed (e.g., pre-tax accounts, including gains in those accounts, and any gain in after-tax accounts) will be taxable to the participant at the time converted.

Take a look at this chart and review the key differences between contributions to a traditional pre-tax 401(k) account and to an after-tax Roth 401(k) account

Item	Traditional 401(k)	Roth 401(k)
Contributions into Account	Pre-tax	After-tax
Employee Distributions	Taxed as ordinary income In the year taken	Free from Federal tax if occur five tax years after 1st Roth contribution AND after the participant either: - Reaches age 59 ½ - Dies - Becomes disable
Required Minimum Distributions (RMD's)	Required at age 70 ½	Required. However, a Roth 401(k) can be rolled over to a Roth IRA prior to the RMD to eliminate this requirement.
Employee Contribution Limits	$18,500 Limit in 2018	$18,500 Limit in 2018

So how do you decide if making an after-tax Roth 401(k) contribution is right for you?

As a general rule, if you believe you will be paying higher taxes in retirement than you are now, consider making contributions to your after-tax Roth 401(k) account. However, if you believe your tax rate will be lower when you take distributions, consider making contributions to your traditional pre-tax 401(k) account.

Keep in mind that future tax rates could be lower, the same, or higher. So, how do you decide? By contributing to both accounts, you may diversify your future tax risk. It is the same principle of diversification used when investing; you do not put all your eggs in one basket. In making the decision about whether to make traditional pre-tax 401(k) contributions, after-tax Roth 401(k) contributions, or both, you will need to review your individual tax situation. You should consult your financial advisor, attorney, accountant, or tax professional to help you decide what is best for you.

To learn more contact QPA, Inc. or your human resources representative.

The Roth IRA is an Individual Retirement Account (IRA) that provides the opportunity for tax-free growth of earnings. There may be fees associated with rolling a Roth 401(k) account into a Roth IRA. Asset allocation and diversification do not assure or guarantee better performance and cannot eliminate the risk of investment losses. QPA, Inc. does not offer tax advice. Please consult with a tax professional.

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