



## ROTH 401(k) PROVISIONS

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- ☉ Roth 401(k) contributions are voluntary individual participant *after-tax* contributions whose investment earnings grow on a tax exempt basis. In other words, as long as certain rules are followed, Roth 401(k) contributions *and* investment earnings attributed to those contributions will grow without future tax liability.
- ☉ EGTRRA created Roth 401(k) possibilities for plan years beginning on or after January 1, 2006.
- ☉ Roth 401(k) provisions must be included in the plan document. This will require an existing 401(k) plan to be amended.
- ☉ Section 402(g) limit applies to the combination of both Roth 401(k) deferrals and traditional 401(k) deferrals. The maximum deferral for 2006 is \$15,000 for employees under age 50 and \$20,000 for employees age 50 or older.
- ☉ There is a 5 year distribution rule on Roth 401(k) contributions that must be followed to avoid taxes and penalties, i.e. contributions made in 2006 can only be distributed after 2010 and with a triggering event such as attainment of age 59 ½, death or disability.
- ☉ Minimum distribution rules apply to Roth 401(k) contributions but do not apply if Roth 401(k) contributions are rolled to a Roth IRA prior to the participant reaching age 70 ½.
- ☉ Rolling traditional Roth IRA contributions into a Roth 401(k) is not permitted.
- ☉ The 5 year rule is also applied to Roth 401(k) contributions that are rolled to a traditional Roth IRA. The 5 year clock starts counting from **the date of the rollover**, with some possible exceptions.
- ☉ Roth 401(k) contributions may or may not be subject to matching, depending on plan design. Matching contributions made on behalf of a Roth 401(k) deferral are not considered after-tax contributions and therefore will be subject to taxation once distributed.
- ☉ Safe Harbor 401(k) Plans are required to provide an annual notice to participants regarding the Safe Harbor Contribution and *should* contain information on the Roth 401(k) deferral.
- ☉ Currently the Roth 401(k) and other provisions of EGTRRA will “sunset” (expire) on December 31, 2010.