

To Roth or not to Roth

Learn the facts about Roth 401(k) contributions and how they could help you add to your retirement savings



Roth Answers

How are Roth 401(k) contributions different than my regular 401(k) contributions?

Regular 401(k) contributions are made before taxes, reducing your current taxable income, and you don't pay any taxes until you withdraw money from your account.

What are Roth 401(k) contributions?

If you make a Roth 401(k) contribution, you pay your taxes up front. Contributions are made on an after-tax basis, and assuming the criteria described below are met, both the contributions and earnings are tax-free upon distribution.

Regular 401(k) contributions give you an immediate tax break. Roth 401(k) contributions give you a break down the road.

A distribution of Roth 401(k) money and investment earnings will only be eligible for the special tax-free treatment if two criteria are met:

1. The distribution occurs at least five years following the year the first Roth contribution is made to the plan; and
2. The participant has attained age 59½, dies or becomes disabled.

The IRS places limits on the amount of contributions you may make to a 401(k) plan. The sum of your regular 401(k) contributions and Roth 401(k) contributions cannot exceed the annual federal limit. If you are age 50 or older and your plan allows, you may make an additional regular 401(k) or Roth 401(k) catch-up contribution each year.

Take advantage of the Roth 401(k) Contribution Calculator:

You can use our online Roth 401(k) Contribution Calculator to determine the option that works best for you. To use it:

1. Go to [schwab.com/workplace](https://www.schwab.com/workplace)
2. Click the "Tools and Resources" tab
3. Then click the "Tools and Calculators" link, and you'll see the link to the calculator

Considerations

Depending upon your individual tax situation, Roth 401(k) contributions could offer a strategic tax planning opportunity. But consider some key questions:

Who is eligible for a Roth 401(k)?

Any eligible employee can contribute to a Roth 401(k) account. Unlike Roth IRAs, there are no income limitations.

How are employer contributions made?

Employer contributions will continue to be made to your account on a pre-tax basis. Only employee contributions are available for Roth treatment.

Will Roth 401(k) contributions be matched?

If there are matching contributions in your plan, Roth 401(k) contributions are matched just like regular 401(k) contributions.

Can I take loans and hardship withdrawals from Roth accounts?

Assuming your plan allows for loans and/or hardship withdrawals, Roth 401(k) contributions are usually available to be withdrawn just like regular 401(k) contributions. Please note that if Roth 401(k) amounts are withdrawn for a hardship withdrawal, the portion attributable to investment earnings may be taxable. If you are under age 59½, they may be subject to early distribution penalties. You should consult a tax advisor for specific implications.

What happens if I leave my job?

The Roth 401(k) balance can be distributed directly to you, rolled over into a Roth IRA or rolled over to another qualified retirement plan that allows for Roth 401(k) contributions. Of course, a rollover will allow you to maintain your Roth tax advantages.

If you choose to roll over the Roth 401(k) to another vehicle and establish a new Roth account, the 5-year holding period starts over. If you roll into an established Roth account, the qualification date is based on the time frame of the existing account.

How is Roth 401(k) different than a Roth IRA?

With no income limitations, Roth 401(k) contributions may be appealing to higher-

paid employees who haven't been able to contribute to a Roth IRA. Keep in mind, however, that a Roth 401(k) account requires you to take withdrawals in the year after you turn 70½. Roth 401(k) may also be favorable for employees early in their career.

A Choice: Should I contribute to a Roth 401(k) account?

Roth 401(k) contributions may be a tremendous chance to add to your retirement savings. With this new option available, you are faced with a choice: should you keep contributing solely to your regular 401(k), move all your retirement contributions to a Roth 401(k) account, or hedge your bets by contributing to both accounts?

Remember, a regular 401(k) plan gives you an immediate tax break; a Roth 401(k) gives it to you down the road. Which is better? It depends on how long the money stays in the account, how much it earns, what your tax rates are when you put the money in and take it out and what the tax laws are at that time. One way to hedge the unknown is to split your contributions between the traditional option and the Roth option.

As each individual's tax situation is different, take time to consider all the facts and consult your tax advisor.

How to elect Roth 401(k) contributions

You may easily elect Roth 401(k) contributions via schwab.com/workplace. Enter your Login ID and password to access the website, and click the "Manage Account" tab, then follow these steps:

1. Select "Contributions"
2. Select "Go to contribution rate"
3. Choose your desired contribution rate from the drop-down list
4. Click on "Continue" to verify your selection
5. Click "Submit" to complete the transaction

If you do not have web access, just call 1-800-724-7526 (1-877-905-2553 para Español).



This information is not intended to be a substitute for specific individual tax, legal or investment planning advice. Where specific advice is necessary or appropriate, please consult a qualified tax advisor, CPA, Financial Planner or Investment Manager.

Schwab Retirement Plan Services Company provides recordkeeping and related services with respect to retirement plans.

For more information please visit schwab.com/workplace or call 800-724-7526.