BPAS Roth 401(k)/403(b)

A Roth 401(k)/403(b) is an optional provision within a traditional 401(k) or 403(b) plan that allows employees to contribute after-tax dollars toward retirement. It combines the features of a traditional qualified retirement plan with a Roth IRA. Roth contributions are made with after-tax dollars that grow tax free and withdrawals (subject to restrictions) aren't subject to income tax.

Who can contribute to a Roth 401(k)/403(b)?

Provided the plan allows Roth contributions, all eligible employees may elect contribute on an after-tax (Roth) basis. The decision of whether to defer on a pre-tax or after-tax basis is unique to each individual's tax situation. While a calculator is available in the BPAS Participant Education Center (pec.bpas.com) to help participants decide, we recommend they consult with a tax advisor before making their final choice.

Can employers match contributions to a Roth 401(k)/403(b)?

Yes. Employers may match Roth contributions in the same manner as they do pre-tax deferrals. And, the tax treatment of the matching contributions remains the same. After all, the match is still an employer contribution, which has yet to be taxed.

Are there penalties for early withdrawal?

The same penalty that applies for early withdrawals from a traditional 401(k)/403(b) applies to Roth distributions. If a withdrawal is not a "qualified distribution," ordinary income taxes and penalties may apply, but only to the earnings. The contributions have already been taxed.

Are there contribution limits?

The same limit for pre-tax deferrals applies to Roth contributions. Together, the total employee contributions (pre-tax and Roth) may not exceed the annual 401(k)/403(b) contribution limit.

How are distributions handled?

The Roth account must be open for at least 5 years for a distribution to be considered a "qualified distribution." After 5 years and attainment of age 59½, Roth distributions will be tax free.

At retirement, termination of employment, or other distributable event, Roth 401(k) funds may be rolled into a Roth IRA or another designated Roth 401(k) plan.

How do employers add a Roth 401(k) or 403(b)?

Adding a Roth option to your retirement plan is easy:

1. Amend your Plan Document before the end of the year in which Roth deferrals are first withheld. Your SPD will also need to be updated, explaining the new Roth deferral option to participants. Don't worry, we'll help.
2. Update your payroll systems to track both pre-tax and Roth deferrals, withhold applicable taxes, and properly report them on W-2 forms.
3. Provide election forms to participants to so they can elect the Roth option for their salary deferrals.

Please note that post-tax Roth contributions are irrevocable for amounts withheld from employees' pay. Election changes may be made for future contributions only. Roth contributions will be reported to BPAS and accounted for separately from other types of contributions within the plan.

Let's talk Roth.

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