

Roth Conversions: Understanding the Rules and When They Make Sense



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Agenda

- Roth Projections
- Conversion Background
- In-plan Roth Conversions:
 - SBJA, Notice 2010-84
 - ATRA, Notice 2013-74
- Designated Roth and Roth IRA
- N. 2014-54: After-tax Contributions and Impact on IRRs and Roth IRA Rollovers
- Handling Plan Sponsor and Participant FAQs
- Form 1099-R Reporting

2015 Tax Rates

Current tax rate

The current marginal income tax rate you expect to pay on your taxable investments. Use the table below to assist you in determining your current tax rate. You can use the table below to assist you in estimating your Federal tax rate.

Filing Status and Income Tax Rates 2015*				
Tax Rate	Married Filing Jointly or Qualified Widow(er)	Single	Head of Household	Married Filing Separately
10%	\$0 - \$18,450	\$0 - \$9,225	\$0 - \$13,150	\$0 - \$9,225
15%	\$18,450 - \$74,900	\$9,225 - \$37,450	\$13,150 - \$50,200	\$9,225 - \$37,450
25%	\$74,900 - \$151,200	\$37,450 - \$90,750	\$50,200 - \$129,600	\$37,450 - \$75,600
28%	\$151,200 - \$230,450	\$90,750 - \$189,300	\$129,600 - \$209,850	\$75,600 - \$115,225
33%	\$230,450 - \$411,500	\$189,300 - \$411,500	\$209,850 - \$411,500	\$115,225 - \$205,750
35%	\$411,500 - \$464,850	\$411,500 - \$413,200	\$411,500 - \$439,000	\$205,750 - \$232,425
39.6%	over \$464,850	over \$413,200	over \$439,000	over \$232,425

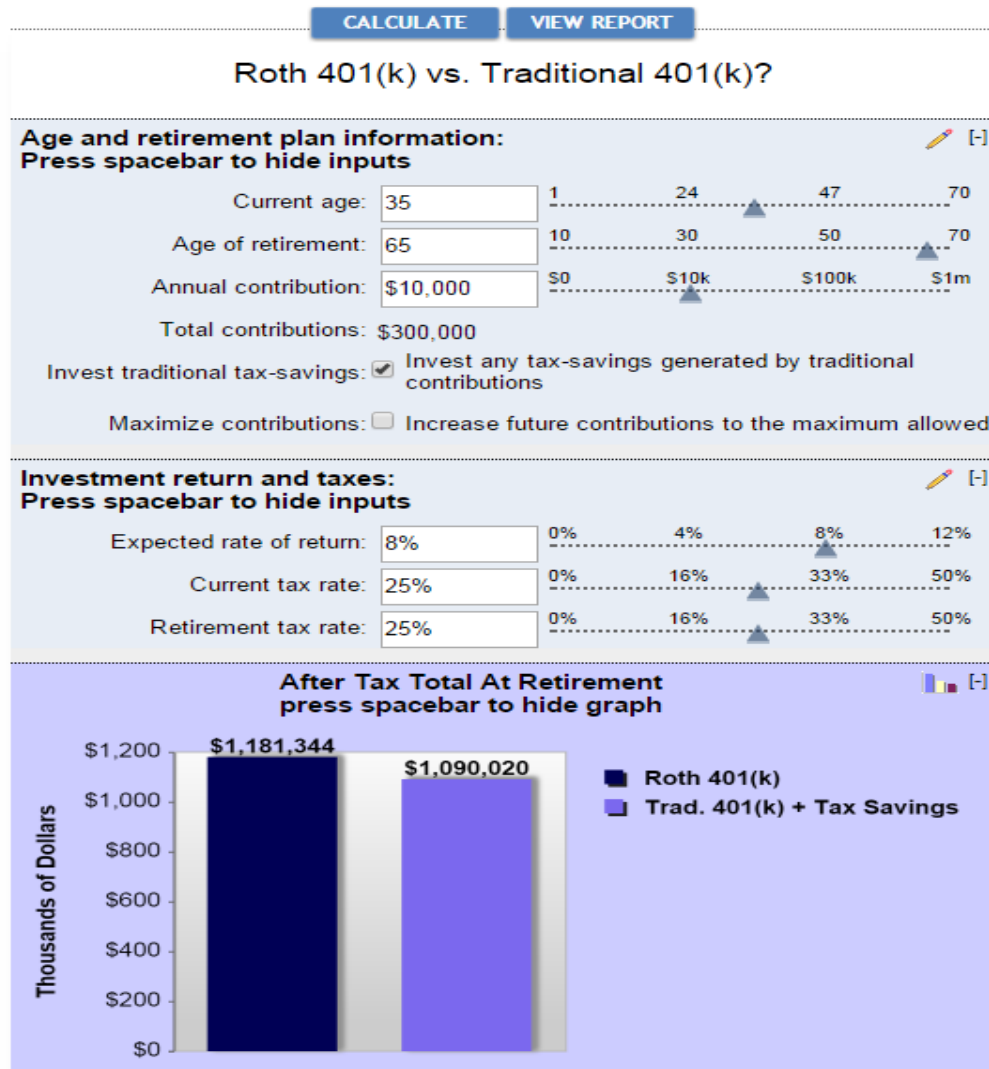
*Caution: Do not use these tax rate schedules to figure 2014 taxes. Use only to figure 2015 estimates. Source: 2014 Rev. Proc. 2014-61

Tax Rate After You Retire



What Interest Rate to Use

30 years of \$10,000/year at 8%, Roth 401(k) versus pre-tax 401(k), 25% tax rate, pre-tax deferral's tax savings invested



Annual contribution. The amount you will contribute to a 401(k) each year. This calculator assumes that you make 12 equal contributions throughout the year at the beginning of each month.

How was this calculated?

Step 1: First we found the value of a Roth 401(k) if you contributed \$10,000 per year for 30 years earning an assumed 8% per year. This equaled \$1,181,344. Since qualified withdrawals from a Roth 401(k) are not taxed, the total value remains \$1,181,344.

Step 2: We then computed the totals for a traditional 401(k). Again we determined the value of \$10,000 per year for 30 years earning an assumed 8% per year. This is the same amount as the Roth 401(k) total, \$1,181,344. However, contributions and all earnings in a traditional 401(k) are taxable when they are withdrawn. After taxes, the value of your traditional 401(k) account would be \$886,008.

Step 3: Since you receive a current year tax deduction for any traditional 401(k) contributions, we need to determine the value of investing this tax savings and add this amount to the traditional 401(k) total. If we forget this step, our comparison will not be equal. We would, in effect, be contributing more to our Roth 401(k) than the traditional 401(k). If your tax savings were invested for 30 years at an assumed rate of 8%, this returns a total of \$204,012 after taxes.

Results Summary

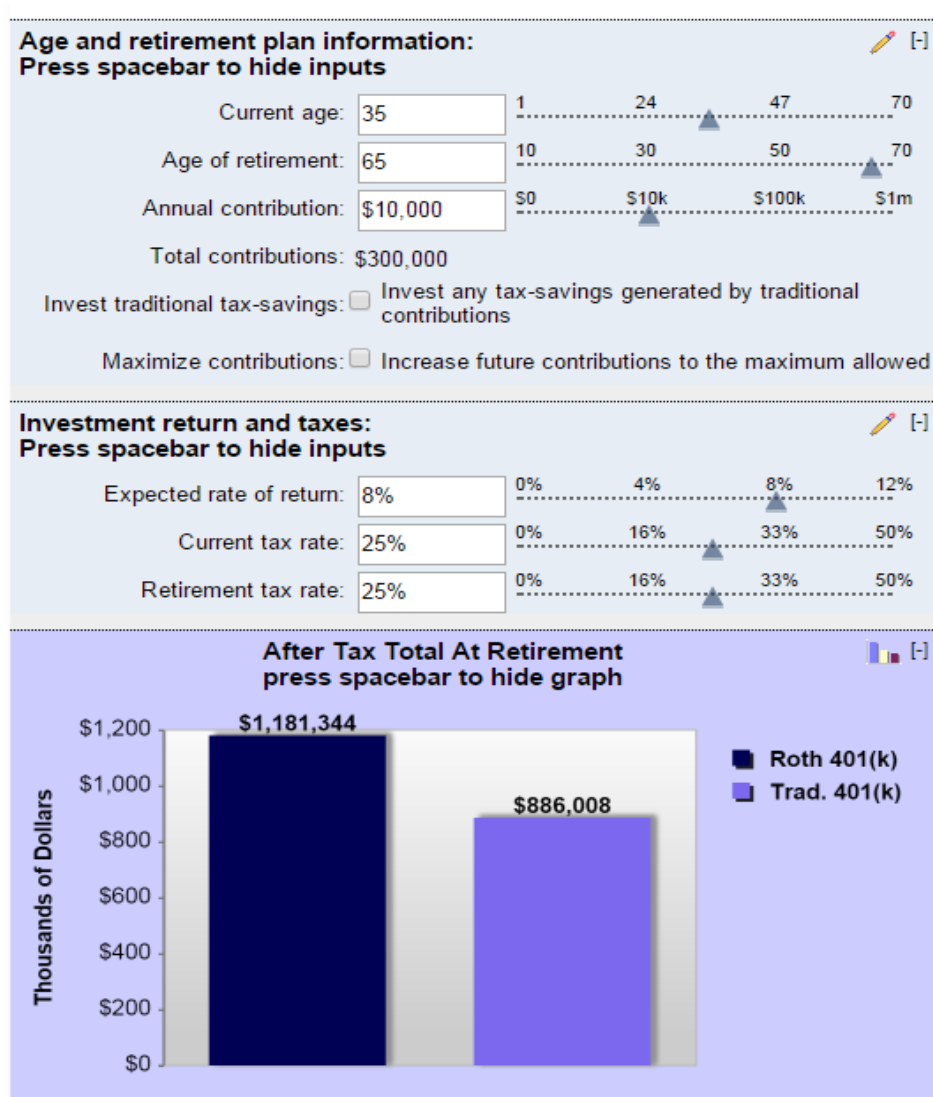
	Traditional 401(k)	Roth 401(k)
Total contributions	\$300,000	\$300,000
Total before taxes	\$1,181,344	\$1,181,344
Value of investing tax savings	+ \$204,012	+ 0
Taxes for 401(k) at retirement	- \$295,336	- 0
Value at retirement (age 65)	\$1,090,020	\$1,181,344

A Roth 401(k) may be worth \$91,324 more than a traditional 401(k).

Input Summary

Annual contribution*	\$10,000	Current age	35
Years until retirement	30	Age of retirement	65
Expected rate of return	8%		
Current tax rate	25%	Retirement tax rate	25%

30 years of \$10,000/year at 8%, Roth 401(k) versus pre-tax 401(k), 25% Tax rate, pre-tax deferral's tax savings not invested



How was this calculated?

Step 1: First we found the value of a Roth 401(k) if you contributed \$10,000 per year for 30 years earning an assumed 8% per year. This equaled \$1,181,344. Since qualified withdrawals from a Roth 401(k) are not taxed, the total value remains \$1,181,344.

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Results Summary		
	Traditional 401(k)	Roth 401(k)
Total contributions	\$300,000	\$300,000
Total before taxes	\$1,181,344	\$1,181,344
Taxes for 401(k) at retirement	-\$295,336	- 0
Value at retirement (age 65)	\$886,008	\$1,181,344

A Roth 401(k) may be worth \$295,336 more than a traditional 401(k).

Input Summary			
Annual contribution*	\$10,000	Current age	35
Years until retirement	30	Age of retirement	65
Expected rate of return	8%		
Current tax rate	25%	Retirement tax rate	25%

Compare a Roth 401(k) to a Traditional 401(k)

Your retirement income can vary widely depending on what type of account holds your savings and what assumptions you make about return and tax rates during the accumulation and withdrawal periods. Use this calculator to help compare employee contributions to the new after-tax Roth 401(k) and the current tax-deductible 401(k).

Savings and Assumptions

Current age *(1 to 120)*

Age when income should start *(1 to 120)*

Number of years to receive income *(1 to 70)*

Before tax return on savings *(accumulation phase) (-12% to 12%)*



Before tax return on savings *(distribution phase) (-12% to 12%)*



Income tax bracket *(accumulation phase) (0% to 75%)*



Income tax bracket *(distribution phase) (0% to 75%)*



Your annual contribution *(\$)*

Taxation of contribution options

1) Traditional 401(k) deductible account fully funded, contributions to Roth 401(k) non-deductible account are reduced

2) Full contribution made to Roth 401(k) non-deductible account, Traditional 401(k) account given a 'side-account' to reflect tax savings



Reset

Submit

401(k) pre-tax deferrals, 30 year contribution, 20 year distribution

Tax bracket while working 25%, after 65 → 25%

Based on the assumptions you provided, your \$10,000 annual contribution for 30 years could provide as much as \$93,459 per year (\$7,788 per month) for your anticipated 20 year distribution period.

401(k) Analysis		
Accumulation Phase	Roth 401(k) (Non-Deductible)	401(k) (Deductible)
Annual contribution (before tax)	\$10,000	\$10,000
Adjustment for taxable contributions*	-2,500	-0
Total annual contribution (after tax)	\$7,500	\$10,000
Interest rate (accumulation phase)	8%	8%
Term (accumulation phase)	30	30
Account value at retirement	\$917,596	\$1,223,461
Distribution Phase	Roth 401(k) (Non-Deductible)	401(k) (Deductible)
Account value at retirement	\$917,596	\$1,223,461
Term (distribution phase)	20	20
Interest rate (distribution phase)	8%	8%
Annual income before taxes	\$93,459	\$124,612
Annual income tax	\$0	\$31,153
After-tax annual income	\$93,459	\$93,459
After-tax monthly income	\$7,788	\$7,788

401(k) Roth contributions, 30 year contribution, 20 year distribution Tax bracket while working 25%, after 65 → 25%

Based on the assumptions you provided, your \$10,000 annual contribution for 30 years could provide as much as \$124,612 per year (\$10,384 per month) for your anticipated 20 year distribution period.

401(k) Analysis		
Accumulation Phase	Roth 401(k) (Non-Deductible)	401(k) (Deductible)
Annual contribution (before tax)	\$10,000	\$10,000
Additional tax savings invested in 'side account'	-0	\$2,500
Total annual contribution (after tax)	\$10,000	\$12,500
Interest rate (accumulation phase)	8%	8%
Term (accumulation phase)	30	30
Account value at retirement	\$1,223,461	\$1,432,966
Distribution Phase	Roth 401(k) (Non-Deductible)	401(k) (Deductible)
Account value at retirement	\$1,223,461	\$1,432,966
Term (distribution phase)	20	20
Interest rate (distribution phase)	8%	8%
Annual income before taxes	\$124,612	\$142,878
Annual income tax	\$0	\$31,153
After-tax annual income	\$124,612	\$111,725
After-tax monthly income	\$10,384	\$9,310

401(k) Pre-tax deferrals, 30 year contribution, 20 year distribution
 Tax bracket while working increased to 35%, after 65 → 25%

Based on the assumptions you provided, your \$10,000 annual contribution for 30 years could provide as much as \$93,459 per year (\$7,788 per month) for your anticipated 20 year distribution period.

401(k) Analysis		
Accumulation Phase	Roth 401(k) (Non-Deductible)	401(k) (Deductible)
Annual contribution (before tax)	\$10,000	\$10,000
Adjustment for taxable contributions*	-3,500	-0
Total annual contribution (after tax)	\$6,500	\$10,000
Interest rate (accumulation phase)	8%	8%
Term (accumulation phase)	30	30
Account value at retirement	\$795,250	\$1,223,461
Distribution Phase	Roth 401(k) (Non-Deductible)	401(k) (Deductible)
Account value at retirement	\$795,250	\$1,223,461
Term (distribution phase)	20	20
Interest rate (distribution phase)	8%	8%
Annual income before taxes	\$80,998	\$124,612
Annual income tax	\$0	\$31,153
After-tax annual income	\$80,998	\$93,459
After-tax monthly income	\$6,750	\$7,788



401(k) Roth deferrals, 30 year contribution, 20 year distribution
 Tax bracket while working increased to 35%, after 65 → 25%

Based on the assumptions you provided, your \$10,000 annual contribution for 30 years could provide as much as \$124,612 per year (\$10,384 per month) for your anticipated 20 year distribution period.

401(k) Analysis		
Accumulation Phase	Roth 401(k) (Non-Deductible)	401(k) (Deductible)
Annual contribution (before tax)	\$10,000	\$10,000
Additional tax savings invested in 'side account**	-0	\$3,500
Total annual contribution (after tax)	\$10,000	\$13,500
Interest rate (accumulation phase)	8%	8%
Term (accumulation phase)	30	30
Account value at retirement	\$1,223,461	\$1,476,659
Distribution Phase	Roth 401(k) (Non-Deductible)	401(k) (Deductible)
Account value at retirement	\$1,223,461	\$1,476,659
Term (distribution phase)	20	20
Interest rate (distribution phase)	8%	8%
Annual income before taxes	\$124,612	\$146,687
Annual income tax	\$0	\$31,153
After-tax annual income	\$124,612	\$115,534
After-tax monthly income	\$10,384	\$9,628

401(k) Pre-tax deferrals, \$24,000/year 10 year contribution, 20 year distribution
 Tax bracket while working increased to 35%, after 65 → 25%

Based on the assumptions you provided, your \$24,000 annual contribution for 10 years could provide as much as \$28,684 per year (\$2,390 per month) for your anticipated 20 year distribution period.

401(k) Analysis		
Accumulation Phase	Roth 401(k) (Non-Deductible)	401(k) (Deductible)
Annual contribution (before tax)	\$24,000	\$24,000
Adjustment for taxable contributions*	-8,400	-0
Total annual contribution (after tax)	\$15,600	\$24,000
Interest rate (accumulation phase)	8%	8%
Term (accumulation phase)	10	10
Account value at retirement	\$244,070	\$375,492
Distribution Phase	Roth 401(k) (Non-Deductible)	401(k) (Deductible)
Account value at retirement	\$244,070	\$375,492
Term (distribution phase)	20	20
Interest rate (distribution phase)	8%	8%
Annual income before taxes	\$24,859	\$38,245
Annual income tax	\$0	\$9,561
After-tax annual income	\$24,859	\$28,684
After-tax monthly income	\$2,072	\$2,390

401(k) Roth deferrals, \$24,000/year 10 year contribution, 20 year distribution
 Tax bracket while working increased to 35%, after 65 → 25%

Based on the assumptions you provided, your \$24,000 annual contribution for 10 years could provide as much as \$38,465 per year (\$3,205 per month) for your anticipated 20 year distribution period.

401(k) Analysis		
Accumulation Phase	Roth 401(k) (Non-Deductible)	401(k) (Deductible)
Annual contribution (before tax)	\$24,000	\$24,000
Additional tax savings invested in 'side account'	-0	\$8,400
Total annual contribution (after tax)	\$24,000	\$32,400
Interest rate (accumulation phase)	8%	8%
Term (accumulation phase)	10	10
Account value at retirement	\$375,492	\$487,683
Distribution Phase	Roth 401(k) (Non-Deductible)	401(k) (Deductible)
Account value at retirement	\$375,492	\$487,683
Term (distribution phase)	20	20
Interest rate (distribution phase)	8%	8%
Annual income before taxes	\$38,245	\$48,026
Annual income tax	\$0	\$9,561
After-tax annual income	\$38,245	\$38,465
After-tax monthly income	\$3,187	\$3,205

\$10,000/Year; 8%, 30 Years until Retirement; 20 Years Payout

Before Retirement Information

- Years until retirement:** 30 years

1 ————— 50
- Annual Salary:** \$100,000

\$20,000 ————— \$250,000
- Contribution to Retirement Plan:** 10.00%

1% ————— 50%
- Expected annual rate of return:** 8.00%

2% ————— 15%
- Estimated tax rate:** [\[more info \]](#) 25.00%

10% ————— 40%

Retirement Information

- Years in retirement:** 20 years

1 ————— 50
- Expected annual rate of return:** 6.00%

2% ————— 12%
- Estimated tax rate:** [\[more info \]](#) 25.00%

10% ————— 40%

Estimated Annual Retirement Income [\[more info \]](#)

Plan Type	Annual Retirement Income
Regular 401(k)	\$74,840
Roth 401(k)	\$99,780

+33%

Effect on Your Paycheck

If you elect to make Roth 401(k) contributions, your net take-home pay will also be reduced by the taxes on your contributions.

Based on your input, the taxes that you pay on the Roth 401(k) contribution are approximately **\$2,500** per year, until you retire.

You will want to consider the effect of this reduction in annual take home pay on your decision to make Roth 401(k) contributions. [\[more info \]](#)

Pre-tax Monthly = \$6,236
 Roth Monthly = \$8,315

\$10,000/Year; 8%, 20 Years until Retirement; 20 Years Payout

Before Retirement Information

- Years until retirement:** 20 years

1 50
- Annual Salary:** \$100,000

\$20,000 \$250,000
- Contribution to Retirement Plan:** 10.00%

1% 50%
- Expected annual rate of return:** 8.00%

2% 15%
- Estimated tax rate:** [\[more info \]](#) 25.00%

10% 40%

Retirement Information

- Years in retirement:** 20 years

1 50
- Expected annual rate of return:** 6.00%

2% 12%
- Estimated tax rate:** [\[more info \]](#) 25.00%

10% 40%

Estimated Annual Retirement Income [\[more info \]](#)

Plan Type	Annual Income
Regular 401(k)	\$30,230
Roth 401(k)	\$40,310 (+33%)

Effect on Your Paycheck

If you elect to make Roth 401(k) contributions, your net take-home pay will also be reduced by the taxes on your contributions.

Based on your input, the taxes that you pay on the Roth 401(k) contribution are approximately **\$2,500** per year, until you retire.

You will want to consider the effect of this reduction in annual take home pay on your decision to make Roth 401(k) contributions. [\[more info \]](#)

Pre-tax Monthly = \$2,519
 Roth Monthly = \$3,359

\$10,000/Year; 8%, 10 Years until Retirement; 20 Years Payout

Before Retirement Information

- Years until retirement: **10 years**

1 ————— 50
- Annual Salary: **\$100,000**

\$20,000 ————— \$250,000
- Contribution to Retirement Plan: **10.00%**

1% ————— 50%
- Expected annual rate of return: **8.00%**

2% ————— 15%
- Estimated tax rate: **25.00%** [\[more info \]](#)

10% ————— 40%

Retirement Information

- Years in retirement: **20 years**

1 ————— 50
- Expected annual rate of return: **6.00%**

2% ————— 12%
- Estimated tax rate: **25.00%** [\[more info \]](#)

10% ————— 40%

Estimated Annual Retirement Income [\[more info \]](#)

Plan Type	Annual Retirement Income
Regular 401(k)	\$9,570
Roth 401(k)	\$12,760 (+33%)

Effect on Your Paycheck

If you elect to make Roth 401(k) contributions, your net take-home pay will also be reduced by the taxes on your contributions.

Based on your input, the taxes that you pay on the Roth 401(k) contribution are approximately **\$2,500** per year, until you retire.

You will want to consider the effect of this reduction in annual take home pay on your decision to make Roth 401(k) contributions. [\[more info \]](#)

Pre-tax Monthly = \$797
 Roth Monthly = \$1,063

401(k) Planner Screen One

General Information		
Gross Pay	2500	Per Pay Period ▾
Gross Salary YTD		(optional)
Pay Frequency	Semi-monthly ▾	
Federal Filing Status	Single ▾	
# of Federal Allowances	2	
Additional Fed. Withholding	\$	
Round Federal Withholding	<input type="radio"/> Yes <input checked="" type="radio"/> No	
I am exempt from:	<input type="checkbox"/> Federal Tax <input type="checkbox"/> FICA <input type="checkbox"/> Medicare	
State and Local Information for New Jersey		
Tax Rate	Married - B ▾	
Allowances	2	
Additional State W/H	\$	
SUI/SDI	<input checked="" type="radio"/> Yes <input type="radio"/> No	
FLI	<input checked="" type="radio"/> Yes <input type="radio"/> No	
Voluntary Deduction Section		
Use <input type="text" value="2"/> ▾ voluntary deduction(s) for my paycheck.		
Employee 401(k) Contribution	6	% of gross pay ▾
Employer 401(k) Contribution	3	% of gross pay ▾
Employer 401(k) Contribution Limit	\$ _____ Annually	
Are you 50 or older?	<input checked="" type="radio"/> Yes <input type="radio"/> No	
Deduction #2 Name	_____	
Deduction #2 Amount	_____	% of gross pay ▾
Ded. #2 Exempt from:	<input type="checkbox"/> Federal <input type="checkbox"/> FICA <input type="checkbox"/> State <input type="checkbox"/> Local	
<input type="button" value="Calculate"/> <input type="button" value="Clear"/>		

Step 2 of 3: Enter Your 401(k) Details

Instructions: Click an item's name for help on contents.

401(k) Planner Screen 2

401(k) Details	
<u>Current taxes you saved *</u>	\$41.55 (\$997.20 annually)
<u>Out of pocket money</u>	\$108.45 (\$2,602.80 annually)
<u>Employee Contribution</u>	\$150.00 (\$3,600.00 annually)
<u>Employer Contribution</u>	\$75.00 (\$1,800.00 annually)
<u>Employer Contribution Limit</u>	No annual Limit
<u>Current value of savings plan</u>	<input type="text"/>
<u>Annual Salary Increase</u>	<input type="text" value="2"/> %
<u>Years to retirement</u>	<input type="text" value="30"/>
<u>Interest rates to graph</u>	<input type="text" value="4"/> % <input type="text" value="6"/> % <input type="text" value="8"/> %

Continue To Step 3 ->

Clear

* Withdrawals are subject to ordinary income tax and may be subject to a federal 10% penalty if taken prior to age 59 ½.

Please Note: The illustrations generated by this financial calculator are intended solely for educational purposes and should not exclusively be used to make any financial decision. For analysis of your individual financial needs, please consult a certified accountant or tax advisor.

Your Pay Check Results		Calculation Based On	
Semi-monthly Gross Pay	\$2,500.00	Tax Year	2015
Federal Withholding	\$304.95	Gross Pay	\$2,500.00
Social Security	\$155.00	Pay Frequency	Semi-monthly
Medicare	\$36.25	Federal Filing Status	Single
New Jersey	\$42.45	# of Federal Exemptions	2
SUI/SDI	\$16.88	Additional Federal W/H	\$0.00
FLI	\$2.25	State	New Jersey
401(k) Plan	\$150.00	Allowances	2
Net Pay	\$1,792.22	Tax Rate	Married - B
		Additional State W/H	\$0.00
		SUI/SDI	Yes
		FLI	Yes
		401(k) Plan	6%

New Calculation

Print Options

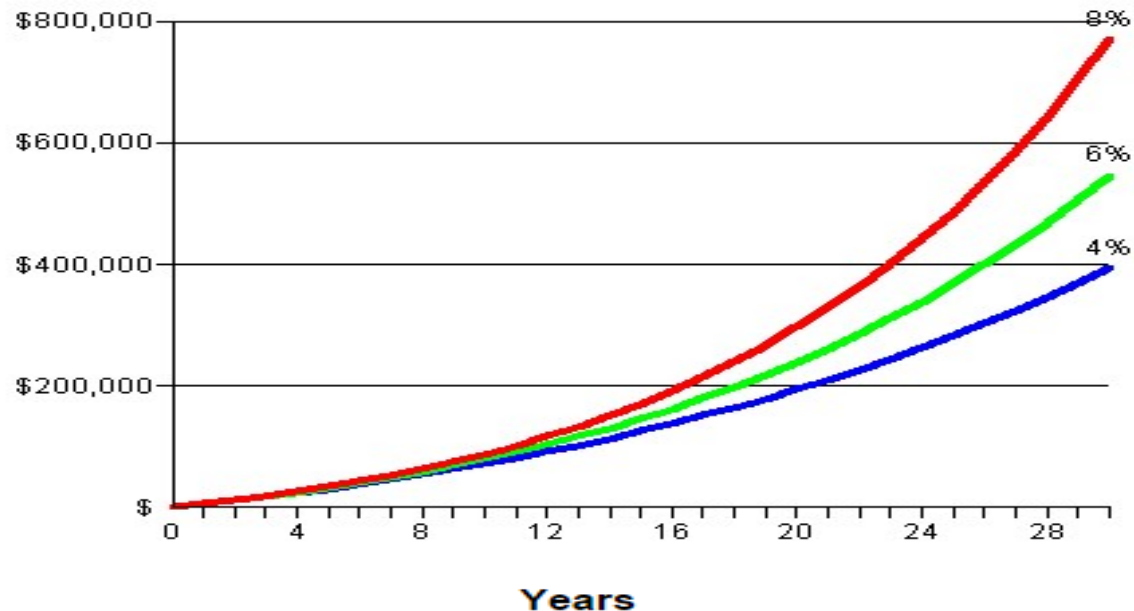
Step 3 of 3: Review Your 401(k) Analysis

Year	You Pay	Employer Pays	Yearly Total	Cumulative value of plan *		
				at 4%	at 6%	at 8%
1	\$3,600.00	\$1,800.00	\$5,400.00	\$5,503.50	\$5,555.25	\$5,607.00
2	\$3,672.00	\$1,836.00	\$5,508.00	\$11,337.21	\$11,554.92	\$11,774.70
3	\$3,745.44	\$1,872.72	\$5,618.16	\$17,516.54	\$18,027.90	\$18,550.20
4	\$3,820.32	\$1,910.16	\$5,730.48	\$24,057.52	\$25,004.81	\$25,984.36
5	\$3,896.64	\$1,948.32	\$5,844.96	\$30,976.81	\$32,518.10	\$34,132.13
10	\$4,302.48	\$2,151.12	\$6,453.60	\$71,888.65	\$79,418.86	\$87,835.60
15	\$4,750.32	\$2,375.04	\$7,125.36	\$125,225.65	\$145,921.35	\$170,667.89
20	\$5,244.72	\$2,622.24	\$7,866.96	\$194,048.76	\$239,042.74	\$296,706.55
25	\$5,790.72	\$2,895.36	\$8,686.08	\$282,122.33	\$368,215.83	\$486,680.47
26	\$5,906.64	\$2,953.20	\$8,859.84	\$302,436.88	\$399,423.34	\$534,814.37
27	\$6,024.72	\$3,012.24	\$9,036.96	\$323,744.52	\$432,685.51	\$586,982.90
28	\$6,145.20	\$3,072.48	\$9,217.68	\$346,088.65	\$468,129.33	\$643,512.56
29	\$6,268.08	\$3,133.92	\$9,402.00	\$369,514.40	\$505,889.40	\$704,755.97
30	\$6,393.36	\$3,196.56	\$9,589.92	\$394,068.70	\$546,108.39	\$771,093.98
Total	\$146,051.04	\$73,022.88	\$219,073.92	\$394,068.70	\$546,108.39	\$771,093.98

401(k) Planner
Screen 3

Please Note: The amount shown for years 2 and after in the "you pay" column are estimates. Your contribution increases by the percentage you listed as your annual salary increase. Future congressional action may limit the amount of contributions to your plan. For analysis of your individual financial needs, please consult a certified accountant or financial planner.

Semi-monthly Contributions: \$225.00 increasing 2% annually

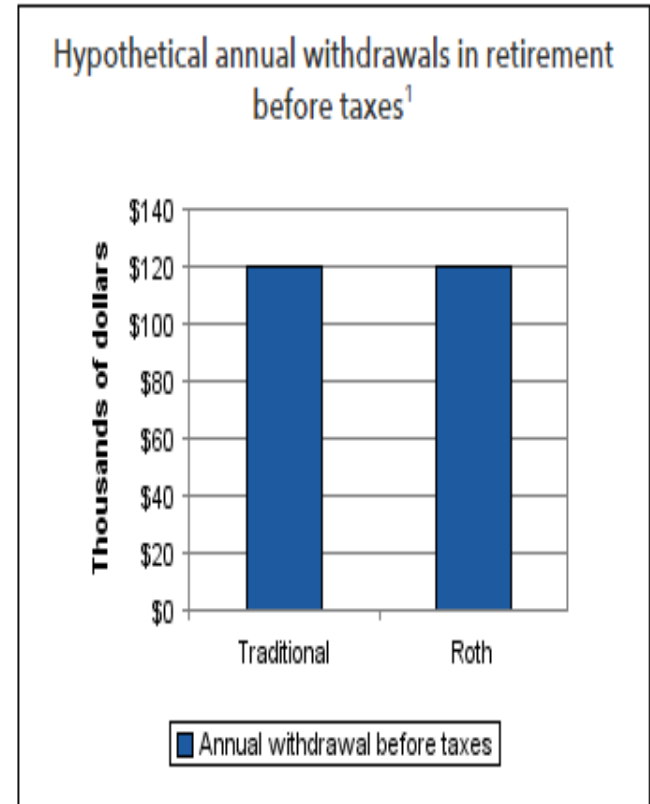


30 years of \$10,000/year at 8%, Roth 401(k) versus pre-tax 401(k),
25% tax rate, pre-tax deferral's tax savings not invested

Traditional and Roth Accounts: Equal Value at Retirement

After 30 years of contributions and growth, the traditional and Roth accounts would both be worth \$1,250,246 at retirement.

Without considering taxes, each account could provide annual withdrawals of \$120,218 in retirement.¹



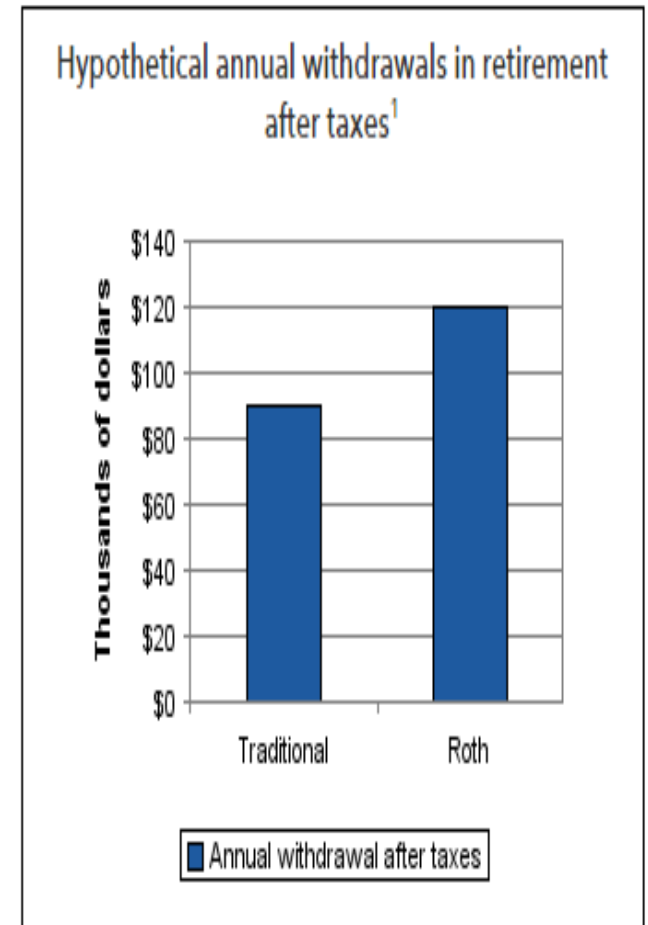
¹ The analyzer calculates average annual withdrawal amounts by assuming that no balance remains when withdrawals end. Early withdrawal penalties and required minimum distributions are not taken into account. The analyzer assumes that all traditional account withdrawals are taxable and that all Roth account withdrawals are qualified, tax-free distributions.

30 years of \$10,000/year at 8%, Roth 401(k) versus pre-tax 401(k),
25% tax rate, pre-tax deferral's tax savings not invested

Traditional Account: Withdrawals Are Taxed

With traditional accounts, taxes are paid on withdrawals. So annual withdrawals from a traditional account would be reduced to **\$90,163** after taxes of \$30,055 are paid.¹

Contributions to Roth accounts are made with money that's already been taxed, so qualified withdrawals are not taxed again. Therefore, the Roth account could provide the full **\$120,218** each year.¹



30 years of \$10,000/year at 8%, Roth 401(k) versus pre-tax 401(k), 25% tax rate, pre-tax deferral's tax savings not invested

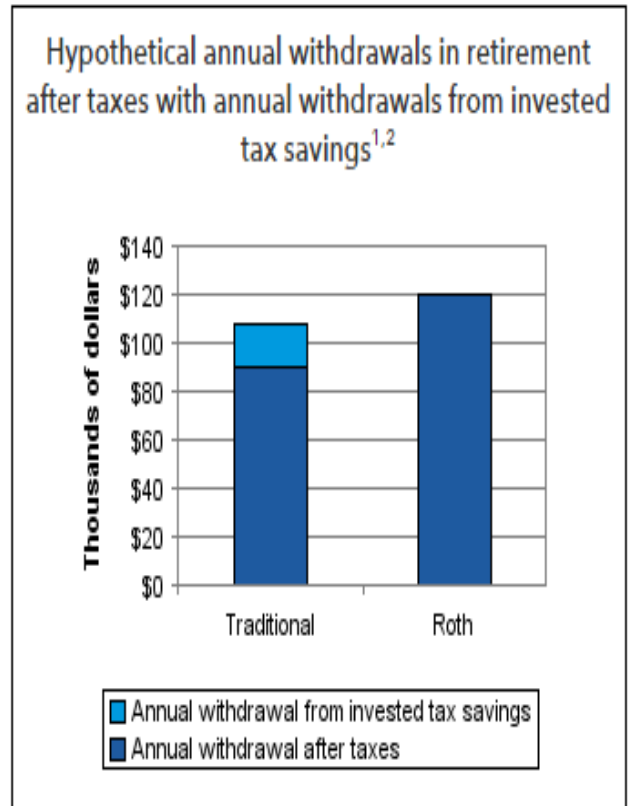
Traditional Account: Tax Savings Can Be Invested

With a traditional account, the tax benefit comes at the time money is invested. In other words, contributions are not taxed.

To allow for a fair comparison, the potential value of these tax savings with a traditional account needs to be measured.

If the annual tax savings of \$2,500 were invested in a taxable account with the same returns as for the retirement plans, the investment of your tax savings could provide additional annual income of **\$17,579.**²

The additional income would not make up for the taxes paid on withdrawals. Therefore, a Roth account might be better than a traditional account in this situation.



30 years of \$10,000/year at 8%, Roth 401(k) versus pre-tax 401(k),
25% tax rate, pre-tax deferral's tax savings not invested

² A traditional account could provide \$2,500 in tax savings on contributions every year before retirement. If invested in a taxable account with the same rates of return as the retirement plan, the tax savings could be worth \$210,320 at retirement and could provide \$17,579 a year in addition to the traditional account withdrawals. The analyzer deducts federal income taxes from earnings on the taxable account on an annual basis using the income tax rates that you specify. This will tend to understate the performance of the taxable account in circumstances where long-term capital gains and qualified dividends, which are currently taxed at lower rates than ordinary income, are a component of investment returns, as is the case for investments with significant equity holdings.

30 years of \$10,000/year at 8%, Roth 401(k) versus pre-tax 401(k),
25% tax rate, pre-tax deferral's tax savings not invested

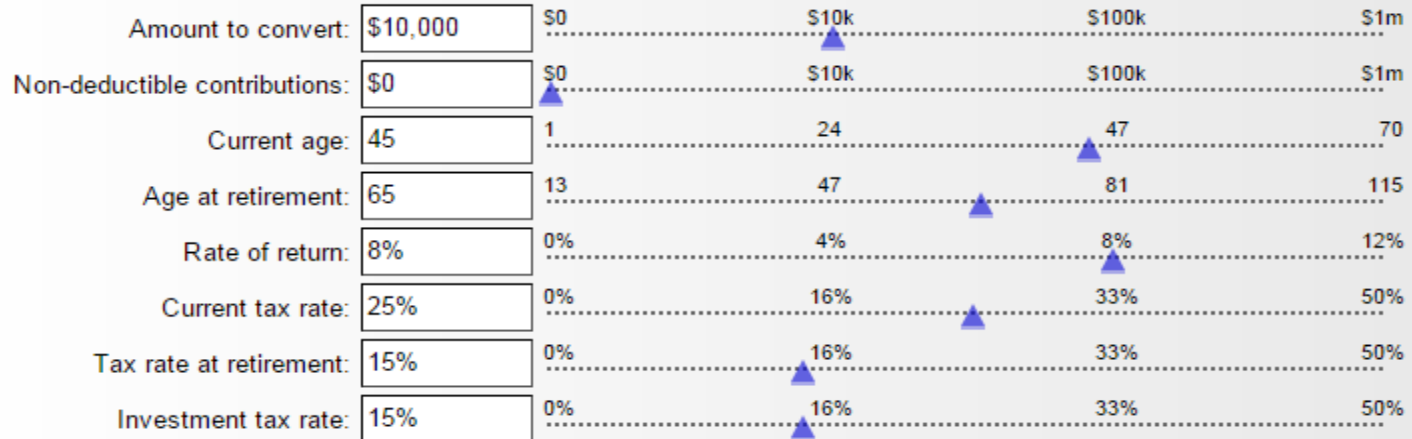
Future tax rates may change. The analyzer applies tax rates to all taxable income. When estimating your future tax rate, you should consider whether the amount of taxable distributions might push you into a higher tax bracket.

Regular investing does not ensure a profit or protect against loss. Hypothetical annual rates of return are not intended to reflect actual results; your results may vary based on market conditions. The analyzer compounds earnings monthly and assumes that withdrawals are made at the beginning of the year. The analyzer does not take certain factors into account, including state and local taxes, required minimum distributions and holding periods, early withdrawal penalties, matching contributions, previous retirement plan contributions and IRS withdrawal rules. Be sure to consult with a financial professional or tax adviser to discuss your specific situation.

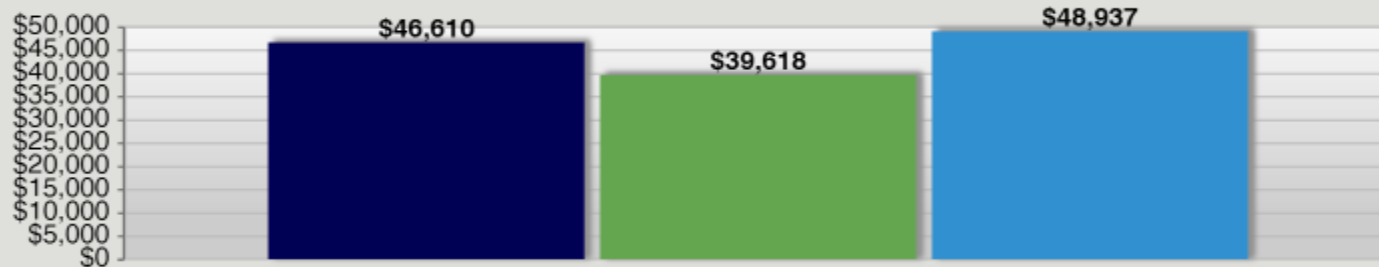
This analyzer is intended for use in making a rough comparison of Roth and traditional retirement plan accounts. We do not guarantee the accuracy of the results or their relevance to your particular circumstances. Results shown are hypothetical and are not intended to portray actual results. Your results will differ. We encourage you to seek the assistance of your financial professional.

Roth IRA Conversion or In-plan Roth Rollover \$10,000, 20 to Age 65 at 8%, 25% tax rate

Roth IRA Conversion Inputs:



Roth Conversion Results at Retirement



- After tax net return from Roth IRA \$46,610
- After tax net return from Traditional IRA \$39,618
- Traditional IRA + invest \$2,500 Roth tax payment \$48,937

Roth IRA Conversion or In-plan Roth Rollover \$10,000, 30 to Age 65 at 8%, 25% tax rate

IRA Values at Retirement	
Traditional IRA before taxes	\$100,627
Traditional IRA tax liability at retirement	\$15,094
Return on \$2,500 "tax investment"	\$17,992
Traditional IRA Total portfolio value at retirement	\$103,525
Roth IRA value at retirement	\$100,627
Total difference at retirement	-\$2,898 -2.8%

*This calculator assumes that you invest the amount that you would have had to pay in taxes in a taxable investment account. The investment tax rate of 15% is used to calculate the annual return on this taxable investment.

Input Values	
Amount to convert	\$10,000
Non-deductible contributions	\$0
Current tax rate ¹	25%
Tax rate at retirement ²	15%
Investment tax rate ³	15%
Current age	35
Age at retirement	65
Rate of return	8%
Roth tax liability ⁴	\$2,500
Taxes are due	Tax year of conversion

¹Current marginal income tax rate that will apply to conversion amount. ²Expected marginal income tax rate at retirement. ³Expected marginal tax rate (based this on expected capital gains rate) for investment. ⁴Estimated tax amount due based on Roth IRA conversion amount.

Roth IRA Conversion or In-plan Roth Rollover \$10,000, 20 to Age 65 at 8%, 25% tax rate

IRA Values at Retirement	
Traditional IRA before taxes	\$46,610
Traditional IRA tax liability at retirement	\$6,991
Return on \$2,500 "tax investment"	\$9,319
Traditional IRA Total portfolio value at retirement	\$48,937
Roth IRA value at retirement	\$46,610
Total difference at retirement	-\$2,327 -4.8%

*This calculator assumes that you invest the amount that you would have had to pay in taxes in a taxable investment account. The investment tax rate of 15% is used to calculate the annual return on this taxable investment.

Input Values	
Amount to convert	\$10,000
Non-deductible contributions	\$0
Current tax rate ¹	25%
Tax rate at retirement ²	15%
Investment tax rate ³	15%
Current age	45
Age at retirement	65
Rate of return	8%
Roth tax liability ⁴	\$2,500
Taxes are due	Tax year of conversion

¹Current marginal income tax rate that will apply to conversion amount. ²Expected marginal income tax rate at retirement. ³Expected marginal tax rate (based this on expected capital gains rate) for investment. ⁴Estimated tax amount due based on Roth IRA conversion amount.

Roth IRA Conversion or In-plan Roth Rollover \$10,000, 10 to Age 65 at 8%, 25% tax rate

401(k) Values at Retirement	
Pre-tax 401(k) before taxes	\$196,715
Pre-tax 401(k) tax liability at retirement	\$29,507
Return on \$25,000 "tax investment"	\$44,560
Pre-tax 401(k) Total portfolio value at retirement	\$211,768
Roth 401(k) value at retirement	\$196,715
Total difference at retirement	-\$15,053 -7.1%

*This calculator assumes that you invest the amount that you would have had to pay in taxes in a taxable investment account. The investment tax rate of 15% is used to calculate the annual return on this taxable investment.

Input Values	
Amount to convert	\$100,000
Current tax rate ¹	25%
Tax rate at retirement ²	15%
Investment tax rate ³	15%
Current age	55
Age at retirement	65
Rate of return	7%
Roth tax liability ⁴	\$25,000
Taxes are due	Tax year of conversion

¹Current marginal income tax rate that will apply to conversion amount. ²Expected marginal income tax rate at retirement. ³Expected marginal tax rate (based this on expected capital gains rate) for investment. ⁴Estimated tax amount due based on Roth 401(k) conversion amount.

Roth Conversion Issues

- Long enough time horizon to make up the taxes paid
- If going to need the Roth conversion to live on before making up the taxes, may never break even
- If never need to use the Roth money to live on, better odds of coming out ahead

Roth Conversion Issues

- Those best positioned to make up taxes paid: the wealthy and the young.
- Roth can be used as an estate-planning tool, providing heirs with a great source of income-tax free funds.
- Those subject to estate taxes will find Roth advantageous, since current tax laws penalize the estates of people who die with assets upon which income tax is still owed.
- Those who inherit a Roth young or convert young have decades of tax-free growth.

Benefits Planner

Calculators

Retirement ▼

Disability ▼

Survivors ▼

Some people have to pay federal income taxes on their Social Security benefits. This usually happens only if you have other substantial income (such as wages, self-employment, interest, dividends and other taxable income that must be reported on your tax return) in addition to your benefits.

No one pays federal income tax on more than 85 percent of his or her Social Security benefits based on Internal Revenue Service (IRS) rules. If you:

- **file a federal tax return as an "individual"** and your *combined income** is
 - between \$25,000 and \$34,000, you may have to pay income tax on up to 50 percent of your benefits.
 - more than \$34,000, up to 85 percent of your benefits may be taxable.
- **file a joint return**, and you and your spouse have a *combined income** that is
 - between \$32,000 and \$44,000, you may have to pay income tax on up to 50 percent of your benefits
 - more than \$44,000, up to 85 percent of your benefits may be taxable.
- **are married and file a separate tax return**, you probably will pay taxes on your benefits.

***Note:**

Your adjusted gross income
+ Nontaxable interest
+ ½ of your Social Security benefits
= Your "**combined income**"

Conversion of Pre-Tax to Roth IRA

- Traditional IRA Conversion to Roth IRA as of 1998
 - AGI < \$100,000; if married file jointly
 - 401(k) roll → to traditional IRA → convert to a Roth IRA
- 2008, 401(k) direct rollover → to Roth IRA
 - AGI < \$100,000; if married file jointly
- TIPRA* removed AGI as of 2010,
 - Leakage of 401(k) assets: individuals (mostly HCEs) able to do a conversion to a Roth IRA for the first time ever

*Tax Increase Prevention and Reconciliation Act of 2005

Conversion of Pre-Tax to 401(k) Roth

- From 2006 until September 27, 2010
 - Pre-tax §401(k) balances were not allowed to be converted to a 401(k) Roth account
- Small Business Jobs Act of 2010 created in-plan Roth Rollover conversion to designated Roth
- American Taxpayer Relief Act of 2012 created in-plan Roth Transfer as of 2013

Small Business Jobs Act of 2010 (SBJA)

September 27, 2010

IRS Notice 2010-84

American Taxpayer Relief Act of 2012 (ATRA)

January 2, 2013

IRS Notice 2013-74

SBJA: Conversion Only for Plans With Designated Roth Provision

- **Conversion → only for plan with a Roth account provision**
 - I.e., 401(k), 403(b), 457(b) governmental plans
 - May not have Roth provision only for conversions
 - IRRs not allowed in plans that may not have Roth
 - E.g., profit sharing, money purchase
- IRR effective upon enactment → September 27, 2010
- Available for participants or surviving spouses

SBJA IRR Requires Distributable Event

- Between 2010 and 2012, IRR requires a distributable event
 - 2010 conversions only: tax in 2010; or half in 2011, half in 2012
- Any distributable event that is eligible for rollover is valid
- Withdrawal restrictions apply
 - In-service not available until after age 59½ for
 - Elective deferrals, safe harbor 401(k) contributions, QNECs, QMACs
- In-service for employer NEC or match
 - Two-year rule (Contribution must be in plan for two years)
 - Five-year of participation rule
- New plan provision to limit an in-service withdrawal for only Roth conversions
 - In joint committee report, and IRS Notice 2010-84

IRRs Not Treated as a Distribution for the Following

1. **Plan loan** transferred to Roth account (without changing its repayment schedule) is not a new loan
2. **Spousal consent is not required** to make an IRR
3. **IRRs counted as part of Vested Account Balance** when determining if participant's VAB exceeds \$5,000
4. **Optional forms of benefit may not be eliminated**
 - Participant's distribution right prior to IRR cannot be eliminated after electing an IRR (Q/A-3)

Other Considerations

- **Individual must have ability to pay tax on amount converted**
 - Withdrawing additional amount above conversion and having 100% withholding
 - Requires distributable event
 - If under 59½, distribution above conversion is subject to 10% penalty
- Disclosures
 - Disclosure to participant in SMM of plan amendment
 - Of taxes due upon conversion, 402(f) Notice

Tax Consequences

Recapture Tax

- For IRRs: Under age 59½, 10% penalty waived
- RECAPTURE TAX → The 10% will be applied if the IRR conversion is withdrawn before five years
- Recapture tax will not apply if:
 - Attainment of age 59½
 - Distribution due to severance from service in year age 55 attained or later
 - A known exception to the penalty occurs

Measuring Five-Taxable-Year Recapture Period

- **Recapture tax's five-taxable-year period**
 - Starts with the first day of participant's tax year in which in-plan Roth conversion made, usually January 1
 - Ends on last day of individual's fifth taxable year after conversion
 - Amounts may be rolled to another Roth without penalty. If withdrawn from subsequent Roth before end of five-year period, 10% recapture tax will apply.
- A separate designated Roth sub-account should be established for each in-plan Roth conversion in order to appropriately apply the recapture tax or acceleration of income rules.

Form 1099-R Instructions for Reporting IRR Withdrawn Within Five Years

Box 10. Amount Allocable to IRR Within Five Years

Enter the amount of the distribution allocable to an IRR made within the five-year period beginning with the first day of the year in which the rollover was made. Do not complete this box if an exception under section 72(t) applies.

For further guidance on determining amounts allocable to an IRR, see Notice 2010-84, Q/A-13.

Calculating Earnings on IRR Withdrawn Before Five Years EXAMPLE

- In 2016, Participant P, age 45, makes a \$100,000 in-plan Roth direct rollover from his profit-sharing account
- At the time of the in-plan Roth direct rollover, P's designated Roth account contains \$78,000 of regular Roth contributions and \$25,000 of earnings
- Since this is an in-plan Roth direct rollover, the rollover amount is separately accounted for within the designated Roth account
- Later in 2016, P takes a \$106,000 in-service withdrawal from his designated Roth account
 - The source can only be the in-plan Roth rollover account, since P is under age 59½, which is the earliest the plan allows in-service distributions of elective deferrals from a designated Roth account. However, the plan permitted in-service distributions of the profit sharing amount and that stays on the IRR.
- At the time of the distribution, P's designated Roth account consists of:

Calculating Earnings on IRR Withdrawn Before Five Years

In-Plan Roth Rollover Account:

In-plan Roth rollover contributions (\$10,000 basis).....	\$100,000
Earnings.....	\$6,000
Total.....	\$106,000

Regular Roth Account:

Regular Roth contributions.....	\$80,000
Earnings.....	\$24,000
Total.....	\$104,000

Total in designated Roth account.....\$210,000

Calculating Earnings on IRR Withdrawn Before Five Years

- Under the pro-rata rules of §72, of the \$106,000 distribution, $\$106,000 \times 30,000/210,000$, or \$15,143, is includible in P's gross income
- All of the \$90,857 (\$106,000-\$15,143) of the distribution that is a return of basis is allocated to the in-plan Roth rollover account
- P is subject to the additional 10% tax under §72(t) on \$105,143
 - The \$90,000 taxable amount of the in-plan Roth rollover under the five-year recapture rule plus \$15,143 that is includible in P's gross income under the pro-rata rules of §72

Calculating Earnings on IRR Withdrawn Before Five Years

- Since the amount of the in-plan Roth rollover was \$100,000 less \$90,857 distributed, there is \$9,143 that may still be allocated to the rollover
 - If the \$9,143 is distributed within five years of the IRR, none of it will be subject to §72(t) under the five-year recapture rule because all the taxable amount of the in-plan Roth rollover has been used up

Series of Conversions

- An individual may convert a small amount each year instead of converting all at once
 - This enables an individual to spread taxation out
 - Multiple conversion tracking for five-year recapture tax
 - Required for Form 1099-R, Box 10 is for reporting IRRs withdrawn before five years have passed
 - From the Form 1099-R instructions for reporting distributions of in-plan conversions before five years have elapsed

Roth IRA Conversion Ladder

<http://rootofgood.com/roth-ira-conversion-ladder-early-retirement/>

	Convert to Roth	Withdraw from Roth	Withdraw from Taxable	Age	Notes
2015	\$34800	0	30000	45	
2016	35800	0	30900	46	
2017	36900	0	31800	47	
2018	38000	0	32800	48	
2019	39100	0	33800	49	
2020	40300	34800	0	50	5 years since 2015 conversion
2021	41500	35800	0	51	5 years since 2016 conversion
2022	42700	36900	0	52	5 years since 2017 conversion
2023	44000	38000	0	53	5 years since 2018 conversion
2024	45300	39100	0	54	5 years since 2019 conversion
2025	46700	40300	0	55	5 years since 2020 conversion
2026	48100	41500	0	56	5 years since 2021 conversion
2027	49500	42700	0	57	5 years since 2022 conversion
2028	51000	44000	0	58	5 years since 2023 conversion
2029	52500	45300	0	59	5 years since 2024 conversion
2030	54100	46700	0	60	You're over 59.5 - do whatever

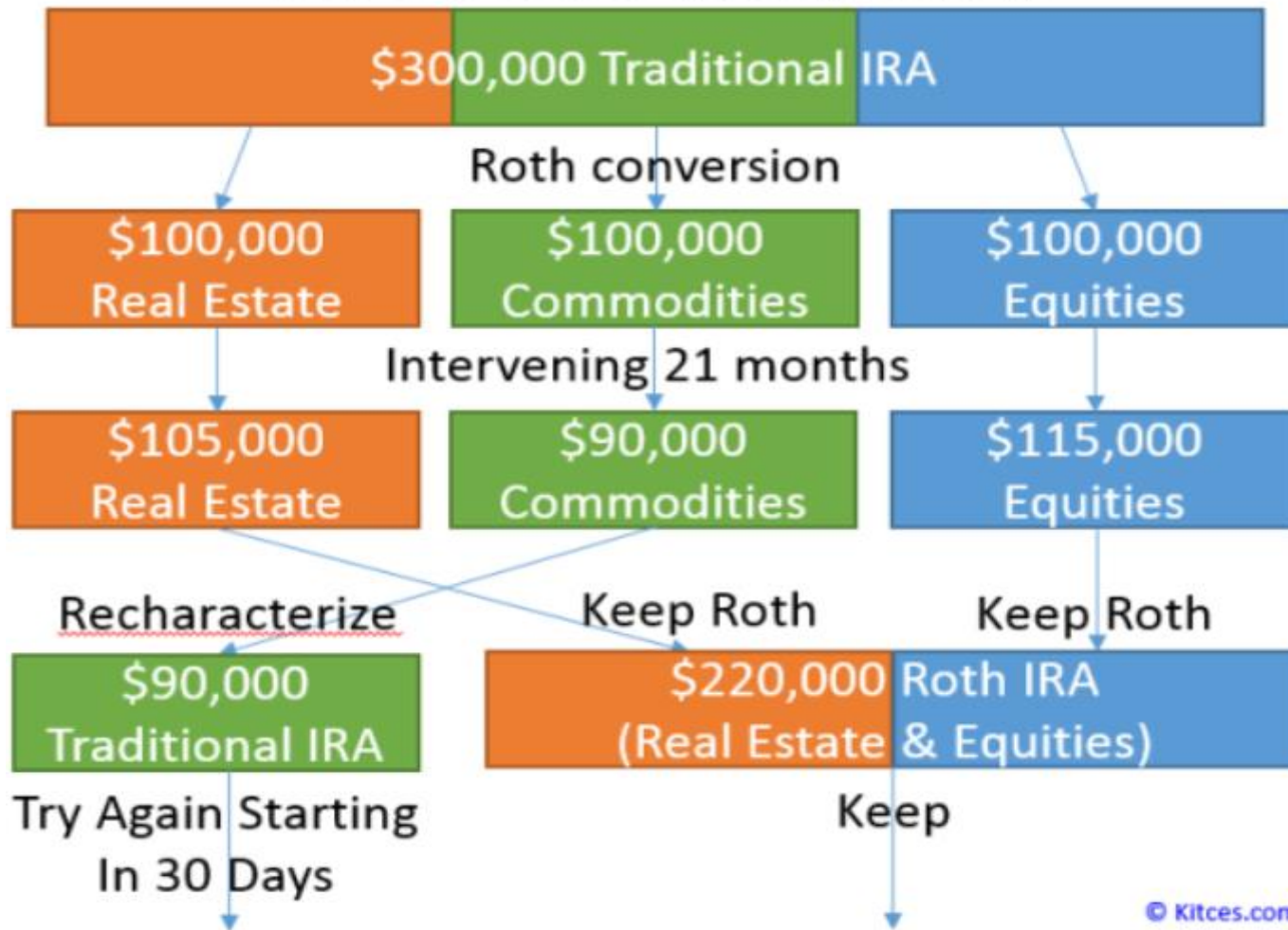
Undoing Roth Conversion Recharacterization

- **Roth IRA conversion → reversed by a “recharacterization”**
- Recharacterization → individual changes converted Roth IRA (with earnings) back to a traditional IRA
 - Amount recharacterized remains tax deferred
- Recharacterization deadline
 - Taxpayers have until the **due date of federal income tax return (including extensions)** for year Roth IRA conversion
- **A conversion from 401(k) to a Roth IRA may NOT be recharacterized back to a 401(k) plan**
 - It may be recharacterized to a traditional IRA

Recharacterization Example

- February 2008: John converts \$250,000 traditional IRA → to Roth IRA.
 - By February 2009, account balance has dropped to \$150,000
- If John takes no further action, he would have to include the \$250,000 conversion amount as income for the 2008 tax year, even though it is now worth only \$150,000
- If John recharacterizes his Roth IRA back into a traditional IRA, the conversion and recharacterization will have no tax consequences for the 2008 tax year
- John may again convert this money into a Roth IRA at a later time

Multiple Account Roth Conversion Splitting Strategy



<https://www.kitces.com/blog/splitting-a-roth-conversion-into-multiple-accounts-to-isolate-investments-for-strategic-recharacterization/>

“Recharacterization” NOT Permitted for IRR

- A conversion from a traditional IRA to a Roth IRA may be recharacterized prior to the individual’s tax filing deadline, including extensions
- There are no recharacterizations of IRRs (within plan conversions) back to pretax qualified plan sources

Plan Amendment

- Plan must have Roth provision to permit IRRs
 - Notice 2010-84 Q/A-20: To have a qualified Roth contribution program in place means to have deferral elections permitting Roth deferrals available at the point when the IRR is to be implemented
- DOCUMENT AMENDMENTS
 - SBJA → snap-on to EGTTTRA document, built into PPA document
 - ATRA → snap-on amendment to the EGTRRA and PPA document

Notice 2013-74

IRR Rules for ATRA and SBJA

2013 In-plan Roth Transfers: No Distributable Event Required

- As of January 1, 2013, a distributable event is not required to make an IRR
 - Section 902 of American Taxpayer Relief Act of 2012, signed into law on January 2, 2013
- ATRA added an IRR via a “transfer” option in addition to the IRR option from the Small Business Jobs Act of 2010

N. 2013-74, ATRA and SBJA IRR Rules

- Otherwise **Nondistributable Amounts** (ONA)
 - Sources/amounts not eligible to be distributed but that may be converted by an in-plan Roth rollover (aka transfer)
 - ATRA Section 903 used this term
- Otherwise **Distributable Amounts** (ODA)
 - Sources/amounts eligible for distribution that could be converted under in-plan Roth rollover guidance from SBJA 2010

Otherwise Nondistributable Amounts

- Otherwise **Nondistributable Amounts** (ONAs)
 - Elective deferrals prior to age 59½, plus earnings
 - Matching contributions, plus earnings
 - Safe harbor 401(k) contributions prior to 59½, plus earnings
 - QNECs, QMACs, plus earnings
 - Annual deferrals in Government 457(b), including the federal government's Thrift Savings Plan
 - Money purchase plan accounts that were transferred into a 401(k) plan

ATRA IRR Rules for ONAs: Plan Options

- **A plan may restrict:**
 - **The type of contributions eligible for IRR**
 - **The frequency of IRRs**
- Subject to 401(a)(4) benefits, rights, and features testing
- A plan design could provide that only Otherwise Distributable Amounts are eligible for IRR (i.e., use only the SBJA IRR rules under N. 2010-84)

Notice 2013-74: Other Rules

- IRR = not a protected benefit
- IRR = taxable event triggering net unrealized appreciation
- IRR = related rollover for top-heavy purposes

Designated Roth and Roth IRA

Should Individual Make a Roth Deferral or a Roth IRA Contribution?

- Designated Roth may receive match
- No income limitations for eligibility to contribute to designated Roth (Roth IRA has income limitations)
 - Therefore, higher income employees will be able to contribute to Roth 401(k)

Pro-Rata Distributions, Not Ordering

- Roth 401(k), 403(b) and government 457(b) do not have the same distribution ordering rules as a Roth IRA
- Roth IRA: you can take after-tax contributions out first and leave the earnings
- Designated Roth plans: you must withdraw pro-rata (Roth and earnings) of non-qualified distributions

Roth IRA “Ordering Rules”

- Roth IRAs have an ordering of which sources are to be distributed first (instead of pro-rata)
 - Note: All Roth IRAs are aggregated for these rules (Roth and traditional IRAs are not aggregated)
- First: Roth IRA contributions OR rollovers from designated Roth accounts
- Second: Converted funds
 - FIFO: Funds that were taxable
 - FIFO: Funds not taxable such as non-deductible IRA
- Third: Earnings

Roth IRA Distribution Ordering Rules Example

- In 2015, Roth IRA: \$15,000 cumulative amount of Roth IRA contributions, excluding earnings
- In addition, there is \$40,000 of conversion from a traditional IRA in 2013
- In 2015, individual (age 35) withdraws \$16,000
 - The first \$15,000 is from Roth IRA contributions
 - \$1,000 is from the conversion amount
 - The \$1,000 is subject to the 10% penalty, due to withdrawal being made before five years of conversion

IRS Top Ten Differences Between a Roth IRA and a Designated Roth Account

	Roth IRA	Designated Roth Account
Number of Investment Choices	Many as long as not prohibited	As offered by the plan
Participation	Anyone with earned income	Participant in a 401(k), 403(b) or 457 governmental plan that allows designated Roth contributions
Contribution limits	\$5,500 (for 2015 and 2016*) \$6,500* (if age 50 or older)	\$18,000 (in 2015 and 2016*) \$24,000* (if age 50 or older)
Recharacterization of rolled-over amounts	Allowed	Not allowed
Required minimum distributions	Only after the original IRA owner's death	Yes
Tax on nonqualified distributions	Nonqualified distributions are distributed in this order: 1. Nontaxable contributions 2. Taxable earnings	Nonqualified distributions are pro-rated between Roth contributions (nontaxable) and earnings (taxable)
Withdrawals	Anytime. May be subject to tax if not a qualified distribution	Only when allowed by the terms of the plan. Subject to tax if not a qualified distribution
Loans	No	Yes, if plan allows
5-year holding period for qualified distributions	Begins January 1 of the year a contribution is made to any Roth IRA	Separate for each Roth account and begins on January 1 of the year contributions made to that account. If one Roth account is rolled into another, the earlier start date applies.
Beneficiary	Anyone	Anyone but, if married, spouse must consent to nonspouse beneficiary

Roth IRA Cannot Be Rolled to a 401(k) Roth

- Why?
 - Law prohibits, there is no conduit Roth IRA
- Measuring five-year period differences
 - Roth IRA versus Roth 401(k) different clocks
 - Roth IRA, from first Roth IRA
 - Roth 401(k)
- Ordering rules for Roth IRA versus pro-rata rules for Roth 401(k)

Roth IRA Conversion Advantages Versus In-plan

- Conversion to Roth IRA Advantages
 - Traditional IRA to Roth IRA may be recharacterized
 - Roth IRA has no RMD during participant lifetime; beneficiaries subject to RMDs
 - No distributable event required to access
 - Roth IRA cannot be rolled back into 401(k)
 - Possibly less fees
- IRR In-plan Roth rollover conversion advantages
 - Creditor protection
 - Spousal beneficiary protection
 - Possibly less fees
 - Possible loan
 - Fiduciary provides prudent investments

After-tax Contributions and IRRs and Roth Rollovers After Notice 2014-54

After-tax and Rollovers

Notice 2014-54

- Multiple-destination rollovers, e.g., rollovers to 401(k), IRA and 60-day participant rollover made at the same time when participant has pre-tax and after-tax amounts involved

After-tax and Rollovers

Notice 2014-54

- To determine the after-tax portion of distribution, treat all disbursements scheduled at the same time as a one distribution, regardless of whether distributions are paid to one or more destinations (payees)
- Contained proposed Roth regulation
 - To change designated Roth rollover distribution regulations so that a participant or a direct rollover are not treated as separate distributions

Roth Distribution Example

- Participant age 40 has \$10,000 401(k) balance \$9,400 of designated Roth and \$600 earnings
- The participant scheduled two distributions at the same time
 - \$5,000 to roll to Roth IRA, and
 - \$5,000 to be paid to himself

Roth Distribution Example

- Notice 2014-54, pretax first by direct rollover
 - The \$600 of earnings would be included in the \$5,000 directly rolled to the Roth IRA
 - The \$5,000 paid to the participant would be all Roth and not subject to taxation

After-tax and IRRs

- After-tax may be permitted to be an in-service distribution conversion to 401(k) Roth (IRR)
- Benefits: within limitations, permits participant to maximize the Roth 401(k) contributions
- Caveats:
 - 415 limitation cannot be exceeded
 - After-tax amounts are part of ACP test
 - Even a SH matching plan must run an ACP test for the after-tax

After-tax and IRRs

- If there are earnings on the after-tax being converted via an IRR, the options are to:
 - Include the earnings in the IRR and pay tax on the earnings
 - Roll the after-tax to a Roth IRA and the earnings to a traditional IRA

After-tax and IRRs Versus Roll to Roth IRA

- Rolling to a Roth IRA has advantages:
 - Ordering rules for Roth IRA distributions
 - One Roth IRA five-year clock for the lifetime of the taxpayer, if already started a Roth IRA, then new money picks up the existing clock
 - No RMDs on Roth IRA, while IRA owner alive
 - For a solo-k, rolling after-tax to a Roth IRA may help keep the balance below the \$250,000 threshold for Form 5500-EZ
 - Recharacterization to a traditional IRA

Handling Plan Sponsor or Participant FAQs

FAQs

- What are some areas of confusion?
- The five-year clocks
 - Five-year clock for recapture tax
 - Tax-free five-year clock
 - Difference between recapture five-year clock and tax-free five-year clock
 - Roth IRA separate five-year clock from designated Roth

Plan Sponsor FAQs

- Plan design and conversions
 - Conversion of entire amount in one year or multiple conversions over time
 - SBJA IRR or ATRA IRR or both?
 - Need for a distributable event in order to make a in-plan Roth rollover or conversion to a Roth IRA
 - ATRA's no distributable event for an IRR

Plan Sponsor FAQs

- Plan design and conversions
 - Frequency of permitting an IRR conversion?
 - Annual, quarterly, other?
 - Limitation of any sources for conversion?
 - Other than deciding on ONA or ODA
 - Will money purchase source be permitted?
 - After-tax conversions via in-service distribution
 - Adding an in-service provision solely for IRRs

Roth Conversions Participant FAQs

- If conversion is for you, what type?
 - IRR, or
 - Roth IRA, or
 - Rollover to traditional IRA and convert to Roth IRA, now or later, or
 - A series of conversions
- Understanding the recapture tax
- Understanding recharacterization
- Paying tax now versus later?
 - Software programs exists
 - CPA for tax advice

Roth Conversions

Participant Considerations

- Whether conversion is right for an individual depends on a number of factors
 - Tax- free earnings
 - Whether tax rates lower now then when distribution made
 - Estate tax planning, with Roth IRA there are no RMDs, leaving entire amount to beneficiaries
 - Do you need withdrawals within next five years?
 - Where is money coming from to pay taxes on the conversion amount?

Roth Conversions

Participant Considerations

- Whether conversion is right for an individual depends on a number of factors
 - Do you currently maintain IRAs or Roth IRAs?
 - Time horizon until retirement will enable regeneration of funds used to pay taxes
 - Is re-characterization a possibility, if so, then consider carefully before tax-filing deadline
 - Qualified Roth distributions are not included in income for purposes of determining whether Social Security benefits are taxable
 - Is after-tax to be maximized in 401(k) and then moved by IRR?
 - Beware 415 limitation
 - Beware ACP test

Substantially Equal Payments

Another Early Retirement Distribution Strategy

Substantially Equal Payments

- Permits lifetime substantially equal payments to be started at any age. IRC §72(t)(2)(A)(iv)
 - **QP: must be separated from service**
 - **IRA: no severance required**
 - 10% early-distribution penalty waived
- Revenue Ruling 2002-62
 - Must stay with same equal payment until later of:
 - Age 59½, or
 - Five years of substantially equal payments
- If break substantially equal payments by stopping payments or by taking more, the 10% penalty applies retroactively to all payments

Substantially Equal Payments

- Three methods of calculating the substantially equal payments
 - Amortization
 - Annuitization
 - Required Minimum Distribution Method
 - Uses Uniform Lifetime Table for ages under 70
 - This uniform lifetime 10 to age 115
 - Split rollover into more than one IRA and apply the substantially equal payment to just one IRA
 - Place enough to get monthly income in one IRA
 - Place remainder in another IRA, as available if needed money

Uniform Lifetime
Table from
Rev. Rul. 2002-62
For Substantially
Equal Payments
Using RMD Method

Taxpayer's Age	Life Expectancy	Taxpayer's Age	Life Expectancy
10	86.2	63	33.9
11	85.2	64	33.0
12	84.2	65	32.0
13	83.2	66	31.1
14	82.2	67	30.2
15	81.2	68	29.2
16	80.2	69	28.3
17	79.2	70	27.4
18	78.2	71	26.5
19	77.3	72	25.6
20	76.3	73	24.7
21	75.3	74	23.8
22	74.3	75	22.9
23	73.3	76	22.0
24	72.3	77	21.2
25	71.3	78	20.3
26	70.3	79	19.5
27	69.3	80	18.7
28	68.3	81	17.9
29	67.3	82	17.1
30	66.3	83	16.3
31	65.3	84	15.5
32	64.3	85	14.8
33	63.3	86	14.1
34	62.3	87	13.4
35	61.4	88	12.7
36	60.4	89	12.0
37	59.4	90	11.4
38	58.4	91	10.8
39	57.4	92	10.2
40	56.4	93	9.6
41	55.4	94	9.1
42	54.4	95	8.6
43	53.4	96	8.1
44	52.4	97	7.6
45	51.5	98	7.1
46	50.5	99	6.7
47	49.5	100	6.3
48	48.5	101	5.9
49	47.5	102	5.5
50	46.5	103	5.2
51	45.5	104	4.9
52	44.6	105	4.5
53	43.6	106	4.2
54	42.6	107	3.9
55	41.6	108	3.7
56	40.7	109	3.4
57	39.7	110	3.1
58	38.7	111	2.9
59	37.8	112	2.6
60	36.8	113	2.4
61	35.8	114	2.1
62	34.9	115	1.9

Mortality Table Used
To Formulate the
Single Life Table in
1.401(a)(9), Q&A-1
from Rev. Rul. 2002-62

age	q_x	l_x	age	q_x	l_x
0	0.001982	1000000	58	0.004736	941078
1	0.000802	998018	59	0.005101	936621
2	0.000433	997218	60	0.005509	931843
3	0.000337	996786	61	0.005975	926709
4	0.000284	996450	62	0.006512	921172
5	0.000248	996167	63	0.007137	915173
6	0.000221	995920	64	0.007854	908641
7	0.000201	995700	65	0.008670	901505
8	0.000222	995500	66	0.009591	893689
9	0.000241	995279	67	0.010620	885118
10	0.000259	995039	68	0.011778	875718
11	0.000277	994781	69	0.013072	865404
12	0.000292	994505	70	0.014519	854091
13	0.000306	994215	71	0.016139	841690
14	0.000318	993911	72	0.017950	828106
15	0.000331	993595	73	0.019958	813241
16	0.000344	993266	74	0.022198	797010
17	0.000359	992924	75	0.024699	779318
18	0.000375	992568	76	0.027484	760070
19	0.000392	992196	77	0.030582	739180
20	0.000411	991807	78	0.034010	716574
21	0.000432	991399	79	0.037807	692203
22	0.000454	990971	80	0.042010	666033
23	0.000476	990521	81	0.046652	638053
24	0.000501	990050	82	0.051766	608287
25	0.000524	989554	83	0.057392	576798
26	0.000547	989035	84	0.063583	543694
27	0.000567	988494	85	0.070397	509124
28	0.000584	987934	86	0.077892	473283
29	0.000598	987357	87	0.086124	436418
30	0.000608	986767	88	0.095238	398832
31	0.000615	986167	89	0.105068	360848
32	0.000619	985561	90	0.115518	322934
33	0.000622	984951	91	0.126487	285629
34	0.000625	984338	92	0.137876	249501
35	0.000629	983723	93	0.149419	215101
36	0.000636	983104	94	0.161176	182961
37	0.000657	982479	95	0.173067	153472
38	0.000696	981834	96	0.185008	126911
39	0.000749	981151	97	0.196920	103431
40	0.000818	980416	98	0.210337	83063.4
41	0.000904	979614	99	0.224861	65592.1
42	0.001007	978728	100	0.241017	50843.0
43	0.00113	977742	101	0.259334	38589.0
44	0.00127	976637	102	0.280356	28581.6
45	0.001426	975397	103	0.303142	20568.6
46	0.001597	974006	104	0.329482	14333.4
47	0.001783	972451	105	0.359886	9610.80
48	0.001979	970717	106	0.394865	6152.01
49	0.002187	968796	107	0.434933	3722.80
50	0.002409	966677	108	0.480599	2103.63
51	0.002646	964348	109	0.532376	1092.63
52	0.002896	961796	110	0.590774	510.940
53	0.003167	959011	111	0.656307	209.090
54	0.003453	955974	112	0.729484	71.8628
55	0.003754	952673	113	0.810817	19.4400
56	0.004069	949097	114	0.900819	3.67772
57	0.004398	945235	115	1.000000	0.364760

For Reference

Roth Form 1099-R Reporting

9898

 VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code		1 Gross distribution		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.		
		\$		2015				
		2a Taxable amount						
\$		2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>		Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2015 General Instructions for Certain Information Returns.		
PAYER'S federal identification number		RECIPIENT'S identification number		3 Capital gain (included in box 2a)			4 Federal income tax withheld	
				\$			\$	
RECIPIENT'S name		5 Employee contributions /Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities				
		\$		\$				
Street address (including apt. no.)		7 Distribution code(s)		8 Other				
				IRA/SEP/SIMPLE <input type="checkbox"/>		\$ %		
City or town, state or province, country, and ZIP or foreign postal code		9a Your percentage of total distribution %		9b Total employee contributions				
				\$				
10 Amount allocable to IRR within 5 years		11 1st year of desig. Roth contrib.		12 State tax withheld		13 State/Payer's state no.		
\$				\$		\$		
				\$		\$		
Account number (see instructions)		15 Local tax withheld		16 Name of locality		17 Local distribution		
		\$				\$		
		\$				\$		

Form 1099-R Cat. No. 14436Q

www.irs.gov/form1099r

Department of the Treasury - Internal Revenue Service

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Designated Roth and Form 1099-R

- A separate Form 1099-R must be issued for designated Roth account distributions.
- Code B is for all Roth distributions (qualified distributions and distributions which have not yet become qualified)
- Box 11 is for reporting the first year of the designated Roth account
- Box 10 is for reporting the distribution of an in-plan Roth Rollover (IRR) that has been distributed before five years after the conversion

Designated Roth Distribution Severance and Partial Distribution

- Participant, age 40, has \$10,000 balance
 - \$9,400 of designated Roth contributions
 - \$600 of earnings
- Participant withdraws \$5,000
 - \$4,700 is Roth; \$300 earnings
- Form 1099-R
 - Box 1 \$5,000
 - Box 2a \$300
 - Box 4 \$60 (20% mandatory withholding)
 - Box 5 \$4,700 (Roth basis)
 - Box 7 Code B
 - Box 11 First year of five-year clock

Designated Roth Distribution

Severance and Direct Rollover to Roth IRA

- Eight months later participant has \$5,000 balance remaining
 - \$4,700 of designated Roth contributions
 - \$300 of earnings
- Participant directly rolls \$5,000 to Roth IRA
 - \$4,700 is Roth; \$300 earnings
- Form 1099-R
 - Box 1 \$5,000
 - Box 2a \$0
 - Box 4 \$0
 - Box 5 \$4,700 (Roth basis)
 - Box 7 Code H
 - Box 11 First year of five-year clock

Severance and Direct Rollover to Roth IRA

- If this participant scheduled both distributions at the same time
- Starting with \$10,000 Roth of which \$600 was earnings and requested \$5,000 to roll to Roth IRA and \$5,000 to be paid to himself
- Notice 2014-54, pretax first by direct rollover, So the \$600 earnings would go to the Roth IRA
- Form 1099-R for direct rollover
 - Box 1 \$5,000
 - Box 2a \$0
 - Box 4 \$0
 - Box 5 \$4,400 (Roth basis)
 - Box 7 Code H
 - Box 11 First year of five-year clock
- Form 1099-R for distribution to participant
 - Box 1 \$5,000; Box 2a \$0; Box 5 \$5,000; Box 7 Code B

QP Non-Roth Distribution in 2015: Sever and Direct Rollover to Roth IRA

- Participant has \$120,000 balance
 - \$108,000 of ER, EE non-Roth contributions, plus earnings
 - \$12,000 of after-tax
- Participant directly rolls \$120,000 to Roth IRA
- Form 1099-R
 - Box 1 \$120,000
 - Box 2a \$108,000
 - Box 4 \$0
 - Box 5 \$12,000 (after-tax basis)
 - Box 7 Code G

QP Non-Roth Distribution in 2015: Direct Rollover to Traditional IRA

- JP Participant has \$200,000 balance
 - \$190,000 of ER, EE non-Roth deferrals plus earnings
 - \$10,000 of after-tax
- JP Participant directly rolls \$200,000 to Traditional IRA
- Form 1099-R
 - Box 1 \$200,000
 - Box 2a \$0
 - Box 4 \$0
 - Box 5 \$10,000 (after-tax basis)
 - Box 7 Code G
- Form 5498, Traditional IRA
 - Box 2: \$190,000
 - No taxation on entire amount

QP Non-Roth Distribution in 2015: Direct Rollover to Traditional IRA

- JP Participant: \$200,000 balance; arranges total distribution
 - \$190,000 of ER, EE non-Roth deferrals plus earnings
 - \$10,000 of after-tax
- JP Participant directly rolls \$190,000 to traditional IRA
- Form 1099-R
 - Box 1 \$190,000
 - Box 2a \$0
 - Box 4 \$0
 - Box 7 Code G
- Form 5498, Traditional IRA
 - Box 2: \$190,000, No taxation on entire amount
- Form 1099-R
 - Box 1 \$10,000
 - Box 2a \$0
 - Box 5 \$10,000
- Per Notice 2014-54

QP In-plan Roth Rollover in 2015: aka In-plan Roth Conversion

- Participant M: \$75,000 balance; over age 59½; in-service distribution; all pre-tax sources: \$75,000 of ER matching and EE pre-tax elective deferrals (plus earnings)
- Participant M makes an in-plan Roth Rollover to a designated Roth account of all \$75,000
- Form 1099-R
 - Box 1 \$75,000
 - Box 2a \$75,000
 - Box 4 \$0
 - Box 5 \$0
 - Box 7 Code G
- 2015 Form 8606, Participant files with Form 1040
 - Part III: Report in-plan Roth Rollover

QP In-plan Roth Rollover in 2015: aka In-plan Roth Conversion

- Participant M: \$150,000 balance; age 40; in-service distribution for purpose of in-plan Roth rollover under ATRA; pre-tax sources: \$145,000 of ER matching, safe harbor QNEC, EE pre-tax elective deferrals; \$5,000 after-tax and earnings
- Participant M makes an in-plan Roth Rollover to a designated Roth account of all \$150,000
- Form 1099-R
 - Box 1 \$150,000
 - Box 2a \$145,000
 - Box 4 \$0
 - Box 5 \$5,000
 - Box 7 Code G
- 2014 Form 8606, Participant Files with Form 1040
 - Part III: Report in-plan Roth Rollover

QP Designated Roth Direct Rollover to Roth IRA 2015

- JP Participant has \$50,000 of 401(k) Roth balance
 - \$46,000 Roth contributions.
 - \$4,000 earnings
- JP Participant directly rolls \$50,000 to ROTH IRA
- Form 1099-R
 - Box 1 \$50,000
 - Box 2a \$0
 - Box 4 \$0
 - Box 5 \$46,000 (after-tax basis)
 - Box 7 Code H
 - First year of Roth 2008
- Form 5498, Roth IRA
 - Box 2: \$50,000
 - No taxation on \$4,000

Questions?

Thank you for attending!

E-mail any additional questions or
comments to me at:

WCGrossman@dstsystems.com

