Is a Roth 401(k) right for you?

Learn the facts about Roth 401(k) contributions and how they could help you take charge of your retirement savings.

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

Own your tomorrow®

Roth answers

How are Roth 401(k) contributions different from my traditional pre-tax 401(k) contributions?

Pre-tax 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 any earnings are tax-free upon distribution.

A distribution of Roth 401(k) money and any 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 participant's 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 pre-tax 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 pre-tax 401(k) or Roth 401(k) catch-up contribution each year.

Considerations

Depending on 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.

Can I take loans and hardship withdrawals from Roth 401(k) contributions?

Assuming your plan allows for loans and/or hardship withdrawals, Roth 401(k) contributions are usually available to be withdrawn just like pre-tax 401(k) contributions. Please note that if Roth 401(k) amounts are withdrawn for a hardship withdrawal, the portion attributable to investment earnings may be taxable.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, withdrawals 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. A rollover will allow you to maintain any tax benefits.

- If you choose to roll over the Roth 401(k) to a newly established Roth IRA, the five-year holding period starts over.
- If you roll into an established Roth IRA, the Roth holding period is based on the time frame of the established Roth IRA.
- If you roll into another qualified retirement plan, the Roth holding period is based on the time frame that applies in the distributing plan.

How is a Roth 401(k) different from 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 generally requires you to take withdrawals in the year after you turn 70½*. A Roth 401(k) may also be favorable for employees early in their career.

A choice: Should I make Roth 401(k) contributions?

Roth 401(k) contributions may be a chance to save toward your retirement goals. With this option available, you are faced with a choice: Should you keep contributing solely to your pre-tax 401(k), move all your retirement contributions to Roth 401(k), or hedge your bets by contributing to both?

Remember, pre-tax contributions could give you an immediate tax break; Roth 401(k) contributions give 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, among other considerations. One way to potentially hedge the unknown is to split your contributions between the pre-tax option and the Roth 401(k) 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 **workplace.schwab.com**. Log in with your ID and password, select "Manage Account," and then click on "Contributions." Follow the instructions to make your election.

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

For more information, please visit **workplace.schwab.com** or call **1-800-724-7526.**

*Actively employed, non-5% owners do not have to take required minimum distributions (RMDs) at age 70½.

When a participant rolls a Roth 401(k) balance to a new Roth IRA, the five-year qualification period starts over. This may impact the rollover decision. If the participant has an established Roth IRA, then the qualification period is calculated from the initial deposit into the IRA and the rollover will be eligible for tax-free withdrawals when that five-year period has ended (and the age qualifier has been met).

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