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Roth 401(k) Trivia: What You May Not Know

[401\(K\) PLANS, BENEFITS](#)
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401(k) plans have been around since 1981; however, the conception for the establishment of such plans was included in the Revenue Act of 1978 whereby Congress included a provision that allowed employees to avoid being taxed on a portion of income that they decided to receive as deferred compensation in lieu of direct pay. Roth 401(k) plans were created as part of the Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA”), but they did not become effective until January 1, 2006. In contrast to “pre-tax” 401(k) deferrals, Roth 401(k) contributions are “post-tax” contributions, but the earnings on Roth 401(k) contributions grow tax-free as long as certain conditions are met.*

Below are six tidbits you may not know about Roth 401(k) plans:

1. A qualified retirement plan cannot offer a Roth 401(k) only; the plan also must offer a traditional pre-tax 401(k) plan.
2. The plan can provide for automatic enrollment in a Roth 401(k) similar to the automatic enrollment in a traditional pre-tax 401(k) plan. The plan document must state how the automatic contributions will be allocated between the traditional pre-tax 401(k) elective deferrals and any designated post-tax Roth 401(k) contributions.
3. The plan document can allow for the “catch-up” contributions on Roth 401(k) accounts for participants who are at least 50 years old, similar to the catch-up contributions allowed for the traditional pre-tax 401(k) deferrals.
4. Roth 401(k) contributions must be included in the annual non-discrimination testing, and also must be included when determining if a plan is top-heavy.
5. Forfeitures, employer matching, or any other employer contributions cannot be allocated to Roth 401(k) accounts.
6. Loans can be taken from Roth 401(k) accounts providing the plan document permits.

For more information on Roth 401(k) plans go to: <https://www.irs.gov/retirement-plans/retirement-plans-faqs-on-designated-roth-accounts>

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***TO AVOID TAXATION ON THE EARNINGS YOU MUST BE A PARTICIPANT IN THE ROTH 401(K) PLAN FOR A MINIMUM OF FIVE YEARS, AND YOU CANNOT TAKE A DISTRIBUTION UNTIL ON OR AFTER THE DATE YOU ATTAIN AGE 59 ½.**

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