

## **New Roth 401(k) To Be Allowed as of January 1, 2006**

Beginning in January, employers will have the option to modify their 401(k) Plan to include the new Roth 401(k). Employee contributions (elected deferrals) to a Roth 401(k) are made with **after tax** dollars. All of the earnings that accumulate over the years are tax free if the Roth 401(k) account has been open at least five years and the account holder is at least 59 ½ years old when distributions are made. All of the rule limits for the traditional 401(k) also apply to the new Roth 401(k), including the catch-up provisions. Also, an employer match will apply to the Roth 401(k) the same as it applies to the traditional 401(k). The match monies for both the traditional and a Roth 401(k) would be aggregated and must be kept as a separate accounting. Therefore, there would be three money source accounts needed by the third party administrator (TPA), one for the traditional 401(k), one for the Roth 401(k), and one for the employer match.

An employee can make contributions totally to a traditional 401(k), totally to a Roth 401(k), or a combination of both at the same time. If an employee has both types of accounts, monies cannot be transferred between them. All the 401(k) rule limits apply to both types of accounts or a total of both accounts. For example, for 2006 an employee can contribute a maximum of \$15,000, or \$20,000 if 50 years or older, all in one type of account or split over both types of accounts. A Roth 401(k) is similar to a Roth IRA but there are differences concerning withdrawal rules and the maximum amount allowed to be contributed. One other big difference is that there is no earnings limit to be eligible to contribute to the Roth 401(k), where there is an income limit which you must be below in order to set up a Roth IRA.

Education and nonprofit employers that offer 403(b) plans will also be able to add Roth accounts, However, the Roth option will not be permitted in 457 plans, offered by government employers.

Note: Roth contributions were authorized as part of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). This provision will sunset at the end of 2010 unless Congress extends some or all of EGTRRA. Therefore, one can count on making contributions to a Roth 401(k) for only five years.