

Roth 401(k) Contributions and In-Plan Conversion Guide

What are Roth 401(k) contributions?





Roth 401(k) contributions can help you diversify your payment stream upon retirement by building tax-free savings. Any returns you earn on your Roth contributions are not taxed at the time of withdrawal.*

The Aon Savings Plan offers three ways to save: on a before-tax, regular after-tax, or Roth 401(k) basis. When you contribute to your account on a Roth or regular after-tax basis, you are paying taxes today on the money you save, rather than paying taxes later. Both Roth and regular after-tax contributions can be a significant advantage over before-tax contributions, depending on your income and tax rate.

You can withdraw regular after-tax contributions tax-free anytime, but the earnings on this money will be taxable.

Before-tax contributions are not taxed when they go into your account, leaving more money to work for you today, but the contributions and the earnings are taxed as ordinary income upon withdrawal.*

Why Roth?

Why would you want to make Roth 401(k) contributions? It really comes down to when you would like to pay taxes on the contributions—now or later. You can withdraw **Roth contributions** --and any earnings—tax-free, provided you are at least age 59½ and you made your first Roth contribution at least five years earlier. This might be especially useful if you think you may be in a higher tax bracket when you retire.

Also, if you make too much money to save in a Roth IRA, you can get the same benefits by making Roth contributions to your savings plan.

See for yourself

Learn more about Roth and check out Vanguard's Roth assessment tool at vanguard.com/rothcontributions. Answer a few easy questions about your situation to find out whether Roth might be right for you.

Roth in-plan conversions and automatic Roth in-plan conversion service

You can convert all or a portion of your before-tax or regular after-tax savings to Roth money within your plan account. You can also enroll in an automatic Roth in-plan conversion service, which automatically converts regular after-tax contributions to Roth the same day the contributions are made.

This might be useful if you save up to the maximum IRS limit for before-tax and Roth contributions each year. Here's why: You can save above that limit with regular after-tax contributions, which means that you can save even more for your future. To see current IRS limits, visit [vanguard.com/contributionlimits](https://www.vanguard.com/contributionlimits).

If you enroll in the automatic Roth in-plan conversion service, no earnings will accrue on the contributions because the amount is converted the same night the contribution is made. However, if you have an existing regular after-tax balance, its conversion to Roth may be a taxable event based on the earnings.

You will owe taxes when you file your return for the year in which the conversion was completed (you will receive a 1099-R). If you are paying estimated quarterly taxes, you should consult with a tax advisor to determine if the conversion will impact your quarterly payments.

Any money you convert will no longer be eligible for loans or hardship withdrawals. All Employee, Employer, and Rollover "sources" (that is, types of contributions) are eligible for conversion to Roth.

Who might not benefit from Roth contributions or conversions

Contributing or converting to Roth or enrolling in the automatic Roth in-plan conversion service is not right for everyone, as it depends greatly on your circumstances, including your current and estimated future tax rates. We recommend that you consult a tax advisor before taking any action.

Once processed, Roth in-plan conversions cannot be reversed. As you weigh your decision, here are four important questions to answer:

How much tax will you owe on the conversion?

The tax on a conversion could be significant. You or your tax advisor should determine whether the amount you convert to Roth would raise your taxable income enough to push you into a higher income tax bracket or cause other adverse tax consequences.

Do you have money outside the plan to pay the tax?

If you have not experienced a distributable event (such as termination from employment or the availability of an in-service withdrawal) and therefore don't have access to savings within the plan, you will have to pay any taxes due with money available outside the plan. If you do have access to your plan savings and are planning to pay any conversion tax with money from your plan account, you will owe regular income taxes and, if you are younger than age 59½, an additional 10% federal penalty tax on the money you withdraw for this purpose will apply.

Can you wait five years before taking Roth withdrawals?

In general, amounts converted as part of a Roth in-plan conversion that are withdrawn within five years of the conversion are subject to a 10% federal penalty tax if you are not age 59½ at the time of distribution.

Each Roth in-plan conversion has a separate five-year holding period for determining whether a withdrawal of converted money is subject to a 10% federal penalty tax, assuming you are not age 59½ at the time of distribution. Please be aware that a single five-year holding period applies to Roth money overall for the purposes of determining whether earnings may be withdrawn income tax-free. This single five-year period (to determine tax-free treatment on earnings) begins on January 1 of the calendar year in which you made your first Roth contribution under the plan.

How do I enroll in automatic Roth conversions?

First, log in to your account at vanguard.com/retirementplans. (If you have multiple accounts at Vanguard, select Employer plans.) From your homepage, select Manage my money, then Manage Roth conversions. Finally, select Set up automatic Roth conversions and follow the prompts.

Let's get started!



To begin making Roth contributions or request a Roth in-plan conversion, log in to your account at vanguard.com/retirementplans.

Need help?

Call **800-523-1188** Monday through Friday, 7:30 a.m. to 8 p.m., Central time.

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Whenever you invest, there's a chance you could lose the money.

***Taxes:** Taking money from your retirement account can affect how much you'll have to pay in taxes. You'll owe taxes on pre-tax money. You won't owe taxes on Roth earnings as long as you are age 59½ or older and it's been at least five years since your first Roth contribution. If required by law, Vanguard will withhold some taxes for you. You may need to pay a 10% federal penalty tax if you take money out early.

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