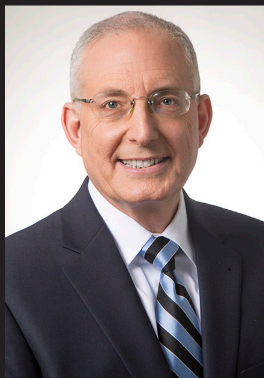

ED SLOTT'S IRA ADVISOR

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Tax & Estate Planning For Your Retirement Savings

Roth 401(k), 403(b), 457(b), TSP Distribution Rules

The title is a mouthful. For this article, we'll use "Roth 401(k)" or "Roth employer plans" as all-inclusive terms for the Roth component of all employer plans. There are not Roth components for SEP or SIMPLE plans. The Roth component of an employer plan is just that, a component. There cannot be a standalone Roth 401(k). The employer must have a 401(k) plan that offers a Roth component. Not all 401(k) plans do. One final note: after-tax funds in a 401(k) plan are not Roth 401(k) funds unless they are held in the Roth 401(k) portion of the plan.

Roth 401(k)s have now been around long enough that employees are starting to move these funds out of their employer plans. Plan participants and their advisors have many questions about what happens when these funds start to come out of a plan.

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Qualified Distributions

As with Roth IRA distributions, once a Roth 401(k) distribution is "qualified," it will come out of the plan tax and penalty free. The rules for a qualified distribution are almost the same as the rules for a qualified Roth IRA distribution:

The Roth 401(k) must have been established for 5 years

AND

The distribution must be made after age 59½; **OR**

The distribution is due to the death of the plan participant; **OR**

The distribution is due to the disability of the plan participant.

Example: Sean made his first deferral to his Roth 401(k) in 2010. In 2017, Sean is 62 and he takes early retirement from his employer. Sean can take a qualified distribution from his Roth 401(k) balance since he is over the age of 59½ and established his account more than 5 years ago. Any distributions Sean takes from his Roth 401(k) will be income tax and penalty free.

WHAT'S INSIDE?