

How does a Roth 401(k) compare to a Traditional 401(k)?

| | Traditional 401(k) | Roth 401(k) |
|-------------------------------|--|--|
| Income Restrictions | No | No |
| Funding | Funded with pre-tax dollars | Funded with after-tax dollars |
| Contributions | Contributions by Employer and Employee | Contributions from employee as elective deferral |
| Matching Contributions | Allowed | Employer matching of Roth 401(k) contribution but not as an after-tax contribution. The employer match is treated as pre-tax contributions |
| Contribution Limits | \$15,500 (\$20,500 if age 50 or older) | \$15,500 (\$20,500 if age 50 or older); If participant makes a contribution to a Roth 401k and pre-tax elective deferrals, the total amount cannot exceed contribution limits |
| Investment Earnings | Tax-deferred earnings | Tax-free earnings |
| Taxes | Pay taxes later Reduces current income tax | Pay taxes now Tax-free withdrawals at retirement |
| Access to Money | Can get access to money when leaving job, disabled, death or (if plan provides) reach age 59 1/2 | Subject to the same restrictions as traditional 401(k) |
| Tax-free Distribution | Not applicable | Two conditions must be met: 1) Distribution must be a "qualified distribution" – attainment of age 59 1/2, death or disabled AND 2) Special 5-year rule – contributions must remain in the plan for 5 years after the first Roth 401k contribution to receive the tax free advantage |
| Minimum Required Distribution | Age 70 1/2 | Age 70 1/2; A Roth 401(k) can be rolled over to a Roth IRA where minimum distribution rules don't apply to distributions taken before death |
| Rollovers | Roll into traditional IRA and effective 2008 roll into Roth IRA allowed | Can be rolled over into a Roth IRA |
| ADP Testing Required | Yes, unless plan is Safe Harbor 401(k) | Yes, unless plan is Safe Harbor 401(k) |