The Roth 401(k) Decision

If your employer-sponsored retirement plan offers a Roth 401(k) option, you may have considered taking advantage of it. Roth 401(k) contributions are made with *after-tax* dollars, but qualified distributions — including earnings — are *tax free* once certain conditions are met. Taxpayers whose income exceeds the limit for making contributions to a Roth individual retirement account (IRA) can still contribute to a Roth 401(k).

Funds must be in your Roth 401(k) account for at least five tax years before you'll be eligible for tax-free distributions. After you meet the five-year requirement, distributions are tax free once you reach age 59½, or you become disabled or die.

How Much?

The IRS limits the annual amount of salary you can defer to 401(k) plans. For 2014, the contribution limit is $17,500, plus an additional $5,500 catch-up contribution if you're age 50 or older. If you have both a traditional and a Roth 401(k), the limits apply to your combined contributions. Your employer can match your Roth contributions. However, matching contributions are taxable, along with related earnings, at withdrawal. You generally must begin taking annual required minimum distributions after you turn age 70½, unless you roll over your Roth 401(k) to a Roth IRA.

New Rollover Opportunity

Starting in 2013, tax law restrictions on in-plan Roth rollovers were eased. If your 401(k) plan has a Roth feature, you may be allowed to roll over your tax-deferred 401(k) money to a Roth 401(k) account inside the plan. If you're interested, ask your plan administrator about your plan's requirements. But remember: You'll owe income taxes in the year of the transaction on tax-deferred amounts you transfer to your Roth 401(k) account.