

## Individual Roth 401(k) Plans

Business owners can choose to add the Roth 401(k) feature to their new or existing Individual 401(k) plan as a salary deferral option. Selecting the “Roth” option for the plan allows salary deferrals with after-tax dollars available as tax-free distributions during retirement.

Feature	Traditional 401(k)	Roth 401(k)
<b>Contribution Limits</b>	\$19,000 (\$25,000 if age 50 or older) 2018: \$18,500 (\$24,500 if age 50 or older)	\$19,000 (\$25,000 if age 50 or older) 2018: \$18,500 (\$24,500 if age 50 or older)
	Can divide the limit between Traditional and Roth 401(k) contributions, if desired	
<b>Taxes</b>	Pay taxes later Reduces current income tax	Pay taxes now Tax-free withdrawals at retirement
<b>Profit Sharing or Matching Contributions</b>	Allowable as pre-tax contributions, taxable upon distribution	Allowable as pre-tax contributions, taxable upon distribution
<b>Tax-free Distribution</b>	Not applicable	Two conditions must be met: 1. Distribution must be “qualified” – attainment of age 59 ½, death, or disability, AND 2. Must be at least five years from the date of first Roth 401(k) contribution
<b>Access to Assets</b>	Distributions are allowable under the following circumstances: <ul style="list-style-type: none"> <li>• Change in employment status</li> <li>• Disability</li> <li>• Death</li> <li>• Retirement (age 59 ½, if plan provides)</li> </ul>	Distributions are allowable under the following circumstances: <ul style="list-style-type: none"> <li>• Change in employment status</li> <li>• Disability</li> <li>• Death</li> <li>• Retirement (age 59 ½, if plan provides)</li> </ul>
<b>Required Minimum Distribution</b>	Age 70 ½ (required for owners and retirees, not for employees)	Age 70 ½ (required for owners and retirees, not for employees) A Roth 401(k) can be rolled over to a Roth IRA where minimum distribution rules do not apply prior to death.
<b>Rollovers</b>	Can be rolled over into a Traditional IRA	Can be rolled over into a Roth IRA

**THE ROTH 401(K) IS A POTENTIAL SOLUTION FOR BUSINESS OWNERS:**

- Currently in a low tax bracket but anticipate a higher tax bracket at retirement,
- Have significant household income preventing qualification for a Roth IRA,
- Are in an equal or lower tax bracket at retirement but would benefit from an “after-tax” asset source at retirement for quality-of-life expenses, such as long-term care,
- Concerned about higher tax bracket or Social Security taxation implications if taking a large distribution from retirement assets,
- Have other sources of retirement income, or
- Wish to use the Roth 401(k) monies for estate planning purposes.

Baird does not provide legal, tax or accounting advice.