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Financial Advisors

Plan Sponsor Perspectives
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The Time May Be Right to Add a Roth 401(k) to Your Plan

The Roth 401(k) continues to gain steady adoption as a way for working Americans to defer in workplace retirement plans. According to Fidelity's *Building Financial Futures* report, the percentage of Fidelity's retirement plans offering a Roth 401(k) (which is contributed from an employee's salary on an after-tax basis) has increased by 32 percent in the past five years and is becoming increasingly popular with younger participants.

Here are some additional insights from the report:

- The percentage of workplace retirement plans incorporating a Roth 401(k) deferral option into their plans offering is 75.2 percent, an all-time high.
- Millennials have increased their Roth 401(k) deferrals from 10 percent to 16 percent in the past 10 years, making them the generation to most take advantage of a Roth 401(k) option.
- In 2021, 26 percent of plans offer employees the ability to convert pretax assets to a Roth, twice the number who offered that option in 2016.

If your plan doesn't offer a Roth 401(k) option, considering adding it. Some of your employees may want to make all contributions to a Roth to benefit from its tax-free withdrawals after age 59½. Others may want to make a combination of pre-tax contributions to their traditional 401(k) account and after-tax contributions to their Roth 401(k).

Which kinds of employees may benefit from having a Roth 401(k) option in your plan?

- Employees whose level of modified adjusted growth income disqualifies them contributing to a Roth IRA. Roth 401(k)s have no MAGI restrictions.
- Employees who want to make higher Roth contributions than the $6,000 per year allowed by Roth IRAs. (In 2021, employees can contribute a total $19,500 per year in any combination of pre-tax or Roth 401(k) contributions.)
- Employees who want to take advantage of available matching contributions for Roth 401(k) contributions (employer matching contributions must be made to a pre-tax 401(k) account whose distributions are taxable when withdrawn).

This chart compares the features of Roth IRAs and Roth 401(k)s.

	Roth IRA	**Roth 401(k)**
Income-related eligibility restrictions	Unavailable to single-tax-filers with MAGI of $140,000 or more or joint-filers with combined MAGI of $208,000	None
How contributions are made	After-tax contributions	After-tax withdrawals from paychecks
Maximum annual regular contributions in 2021	$6,000	Total maximum annual combined pre-tax and Roth 401(k) contributions: $19,500
Additional annual "catch up" contributions for those over age 50	$1,000	$6,500
Investment options	Stocks, bonds, ETFs and potentially thousands of mutual funds	Limited to investment options available in the plan
Employer matching contributions	Not applicable	Yes, but employer matches of Roth 401(k) contributions must be made to a pre-tax 401(k) account
Taxation of withdrawals	None, if account owner is over 59½ and has owned the account for 5 years	None, if account owner is over 59½ and has owned the account for 5 years
Loans allowed?	No	Yes, if allowed by the plan
Required minimum distributions (RMDs)?	No	Yes, must start taking RMDs by age 72 if retired
Rollover options	Can only be rolled over to another Roth IRA custodian	Can be rolled over into a Roth IRA or into another employer's Roth 401(k)

If you want to learn how to add a Roth 401(k) to your plan or need help understanding your responsibilities in managing Roth 401(k) accounts, contact your retirement plan advisor.

401(k) Administration Basics: QDROs

When couples divorce, the resulting settlement often calls for the division of retirement plan assets. A qualified domestic relations order (QDRO) is a judgment, decree, or order for a retirement plan to pay child support, alimony, or marital property rights to a spouse, former spouse, child, or other dependents of a child (an alternate payee). Let's look at some of its key requirements.

- Retirement plans must establish written procedures for administrating assets under QDROs. Be sure to locate and follow these procedures!
- Upon receipt of a QDRO, the plan administrator should notify the plan participant and the alternate payee(s) named in the order.
- The QDRO must specify the participant; the alternate payee; the last known mailing address of the participant and the alternate payee; the amount, percentage, or formula of the plan participant's benefits to be paid to the alternate payee (or payees); and the number of payments or time period to which the order applies.
- Former spouses who receive assets as the result of a QDRO distribution are responsible for paying the associated taxes. Taxes can be deferred by rolling the assets into an IRA or another qualified plan.
- A QDRO distribution paid to a child or other dependent is taxed to the participant.

It is imperative to adhere to the proper procedures when administering a QDRO. Failure to do so may result in significant operational failures. Plan administrators should work with their retirement plan service provider or advisor to understand the QDRO process.

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