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More ways to save for your future

In-plan Roth transfer strategy

In-plan Roth transfer features

A one-time in-plan Roth transfer allows you to transfer a lump sum of your vested account balance from pretax or non-Roth after-tax to Roth.

Earnings in these transferred accounts can grow tax-free, however:

- The transferred balance is considered taxable income for the year the transfer is made. Two transfer amounts will be reported on a Form 1099-R.
- Since the gross amount transferred was taxed at the point of the transfer, these amounts won't be taxed when withdrawn. The earnings on the transferred Roth funds would be considered tax-free if the distribution is a qualified distribution.[*]

Select a non-Roth portion of your account to transfer › **Pay taxes on any pretax amounts and earnings transferred** › **Grow tax-free within the Roth account**

Want to make a one-time, in-plan Roth transfer?
Log in to principal.com, select Contributions, then Roth transfers.

Here are some things to keep in mind:

- You have to pay taxes on any pretax contributions and earnings, and earnings on any after-tax contributions (if applicable) in the year you transfer it.
- A transfer can't be undone.
- There's typically no fee for a transfer.
- How close you are to retirement and how long you expect to be in retirement can impact your decision.
- How you plan to use your retirement savings can also play a role. For example, if you plan to leave your savings to a charity that doesn't pay taxes, then a transfer may be unnecessary.
- There may be tax implications. You may want to consider making estimated tax payments to avoid penalties.
- If the entire account balance has converted to Roth in a year prior to the year you are eligible for a required minimum distribution, you're not required to take a minimum distribution even if it's been transferred to Roth on and after you are eligible for a required minimum distribution.

[*] A qualified distribution is one that is made after age 59½, death or disability, and must be taken at least five years after the first Roth contribution was made. This 5-year period determines whether or not the earnings will be tax-free.

What is a qualified distribution?

To ensure tax-free treatment at distribution, distributions must be deemed "qualified" and must be made after one of the following events:

- A participant reaches age 59½
- A participant's death
- A participant becomes disabled

Qualified distributions may not be made within the first five taxable years after the Roth contribution to the plan account is established.[*] For example, if the Roth elective deferral account is first established June 1, 2021, the five-taxable-year period ends Dec. 31, 2025.

What if I take a distribution that is not considered qualified?

Earnings distributed from a Roth account will be subject to taxation, as well as the possibility of an Internal Revenue Service (IRS) 10% early distribution tax unless the distribution is qualified.[*] Additionally, a 5-year recapture rule[1] can apply to distributions from in-plan Roth transfer funds.

How do I calculate the 5-year recapture rule?

The 5-year recapture period starts on January 1 of the year of the transfer. Distributions from the in-plan Roth transfer account made prior to the 5-year recapture period may trigger the 10% early-distribution tax on the taxable amount (the principal) transferred, unless an exception applies.

For example, if the in-plan Roth transfer is completed in December 2022, then 2022 is the first taxable year of the 5-year recapture period stretching from 2022 through 2026 for the taxable amount (principal) transferred. If a second in-plan Roth transfer is completed in April 2023, then 2023 is the first taxable year of the 5-year recapture period stretching from 2023 through 2027 for the taxable amount (principal) transferred.

[1] For in-plan Roth rollovers and if not age 59½ or more, or age 55 or above and separated from service, or if no exception to penalty applies, the 10% IRS penalty tax will apply.

How do I know if transferring to Roth might be good for me?

A Roth transfer can be a powerful tax-planning strategy that can provide tax-free income in retirement. If you anticipate maxing out contributions or could potentially end up in a higher tax bracket after retirement, a Roth transfer may be good for you.

It may make sense to consider a one-time Roth transfer as it allows you to pay taxes on money now rather than leaving it in a non-Roth account and paying taxes on withdrawals after retirement.

You'll want to carefully weigh the advantages and disadvantages of an in-plan Roth transfer with your tax advisor or financial professional.

Is an in-plan Roth transfer subject to the 20% mandatory federal tax withholding?

No. The 20% mandatory withholding doesn't apply to an in-plan Roth transfer. However, if you elect an in-plan Roth transfer, the taxable portion of the transfer is subject to income tax.

Note: Electing an in-plan Roth transfer may mean you may make payments to avoid an underpayment penalty when filing your tax return. Before making such a decision, always consult with your tax advisor or financial professional and refer to IRS Publication 505, Tax Withholding and Estimated Tax for additional information on withholding of taxes.

Review your contributions and options. Log in to principal.com

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