Another Retirement Savings Option: Roth 401(k) Plan

by John E. Buckley
Bureau of Labor Statistics

Originally Posted: February 22, 2006

Employers now have a new retirement savings plan to offer their employees--the Roth 401(k) plan, which combines features of Roth IRAs and traditional 401(k) plans.

Beginning January 1, 2006, employers have a new retirement savings option to offer employees. The plan, commonly referred to as a "Roth 401(k)," is a hybrid that combines features of Roth IRA and traditional 401(k) plans but differs in important aspects. Some of the differences and similarities are outlined in the exhibit.

Employees who already have a regular 401(k) plan can participate in a Roth 401(k) if the employer offers it. However, the combined total contributions cannot exceed the Internal Revenue Service limit set for individual plans--that is, $15,000 (or $20,000 for employees aged 50 or over) in 2006. An employee who participates in both plans can designate the amount to be applied to each plan. Once a decision is made, the participant cannot switch money among the plans. (Roth 401(k) participants who change employers can roll over the proceeds into a Roth IRA.)

If an employer provides a matching contribution to a Roth 401(k), two accounts are set up for each participant. The first contains the employee's after-tax contributions that will be distributed tax free. The second account contains the employer's before-tax contributions and any investment growth; these funds are taxable when distributed.[1]

The National Compensation Survey (NCS) publication *Employer Costs for Employee Compensation*[2] presents employer costs data for various employee benefits. Currently, information is available for defined contribution retirement plans that includes data for traditional 401(k) plans. When the NCS encounters the new Roth 401(k) plans, they will be included as defined contribution plans in the NCS benefits incidence and provisions estimates.

Exhibit. Comparisons Of Roth 401(k), Roth IRA, And Traditional 401(k) Retirement Plans

Roth 401(k) plan	Roth IRA	Traditional 401(k) plan
Employee contributions are made with *after-tax* dollars.	Same as Roth 401(k) plan.	Employee contributions are made with *before-tax* dollars.
Investment growth accumulates without any tax consequences.	Same as Roth 401(k) plan.	Investment growth is not subject to Federal and most State income taxes until funds are withdrawn.
No income limitation to participate.	Income limits: married couples, $160,000, singles, $110,000 adjusted gross income.	Same as Roth 401(k) plan. No income limitation to participate.
Contribution limited to $15,000 in 2006 ($20,000 for employees 50 or over).	Contribution limited to $4,000 in 2006 ($5,000 for employees 50 or over).	Same as Roth 401(k) plan.
Withdrawals of contributions and investment growth are not taxed provided recipient is at least age 59½ and the account is held for at least five years.	Same as Roth 401(k) plan.	Withdrawals of contributions and investment growth are subject to Federal and most State income taxes.

Distributions must begin no later than age 70½. (This may change.)	No requirement to start taking distributions.	Same as Roth 401(k) plan.

John E. Buckley
Economist, Division of Compensation Data Analysis and Planning, Bureau of Labor Statistics.
Telephone: (202) 691-6299; E-mail: Buckley.John@bls.gov

Notes

1 More information on the latest regulations regarding Roth 401(k) plans can be found at the Internal Revenue Service (IRS) website at http://www.irs.gov/pub/irs-regs/td_9237.pdf.

2 See *Employer Costs for Employee Compensation*, 1986-99, Bulletin 2526 (Bureau of Labor Statistics, March 2000).