

CASE OF THE WEEK
w/o 11.13.2011 Comparing Designated Roth and Employee After-Tax Contributions

Our ERISA consultants on the Columbia Management Learning Center Resource Desk regularly receive calls from financial advisors on a broad array of technical topics related to IRAs and qualified retirement plans. For example, we routinely guide Columbia Management’s financial advisor partners through the rules related to 401(k) after-tax contributions.

A recent call with an Edward Jones advisor in North Carolina is representative of a common inquiry regarding the differences between the two types of after-tax contributions possible in 401(k) plans (i.e., designated Roth contributions and employee after-tax contributions). The advisor asked: **What are the key differences between designated Roth contributions and employee after-tax contributions in 401(k) plans?**

Highlights of Recommendations

	Designated Roth Contributions	Employee After-Tax Contributions
Annual Limit	<ul style="list-style-type: none"> Combined with participant’s pre-tax salary deferrals under IRC Sec. 402(g) 2011 maximum \$16,500 (or \$22,000 for age 50 and older) Plan imposed limit may apply 	<ul style="list-style-type: none"> Combined with all plan contributions for participant under IRC Sec. 415(c) 2011 maximum is 100% of participant’s pay up to \$49,000 (or up to \$54,500 if making catch-up contributions) Plan imposed limit may apply
Tests	Actual <i>deferral</i> percentage test	Actual <i>contribution</i> percentage test
When distributable	According to plan terms, but not prior to age 59 ½ unless for hardship	According to plan terms; could be at any time without age restriction
Availability of tax-free withdrawals	According to plan terms, and after five years and attainment of age 59 ½, death or disability	According to plan terms, and only separately accounted for pre-1987 contributions; otherwise, return of pro rata share of contributions and earnings, with earnings taxable
Ability to rollover	Yes, when distributable and only to another designated Roth account or Roth IRA	Yes, when distributable to a traditional or Roth IRA or eligible employer plan that will accept and will separately account the assets
Ability to Convert	N/A	Yes
Plan language required to allow	Yes	Yes
Subject to required minimum distributions	Yes	Yes

CASE OF THE WEEK*w/o 11.13.2011 Comparing Designated Roth and Employee After-Tax Contributions*Conclusion

It is possible for 401(k) plans to offer participants the ability to make two types of after-tax contributions to their plans: 1) designated Roth and 2) employee after-tax contributions. Financial advisors who understand the differences between the two set themselves apart from the average advisor and, thereby, win more clients and retirement plan business. As always, the Columbia Management Learning Center is available to help.