PARTICIPANT RESOURCE

Understanding Roth deferrals and in-plan Roth conversions

When planning for retirement, two key strategies can help you maximize tax advantages: **Roth elective deferrals** and **in-plan Roth conversions**. Both use Roth accounts, which offer tax-free growth and withdrawals during retirement. However, they operate differently and serve distinct purposes in your overall retirement strategy. Let's explore the differences between these two options to help you make the most of your retirement plan.

Roth elective deferrals

Roth elective deferrals refer to contributions made directly into a Roth account within a 401(k), 403(b), or a similar employer-sponsored retirement plan. These contributions are made with after-tax dollars, meaning the money you contribute has already been taxed as part of your income. Since taxes have been paid upfront, both the contributions and the earnings on those contributions can be withdrawn tax-free in retirement, provided certain conditions are met.

This option is particularly appealing if you expect to be in a higher tax bracket when you retire, or if you prefer the certainty of knowing your future withdrawals won't be subject to taxes.

In-plan Roth conversions

An **in-plan Roth conversion** allows you to move pre-tax retirement savings into a Roth account within the same retirement plan. If you've contributed to your retirement plan with pre-tax dollars, those funds were not taxed when they were contributed and would be taxable when withdrawn in retirement. By converting those pre-tax savings into Roth funds, you pay taxes on the amount converted in the year of the conversion, adding the converted amount to your taxable income for that year.

This strategy can be especially beneficial if you expect to be in a higher tax bracket during retirement and want to avoid paying taxes on your withdrawals in the future. It's important to note that not all plans offer the in-plan Roth conversion option, so be sure to check with your plan administrator.

Required minimum distributions (RMDs)

Required minimum distributions (RMDs) refer to a mandatory, minimum amount that you must withdraw from certain types of retirement accounts. The RMD amount is based on your account balance and life expectancy. Roth accounts **do not** require RMDs during your lifetime—a key benefit of this type of account—providing more flexibility in how and when you access your retirement savings.

Which strategy is right for you?

While both Roth elective deferrals and in-plan Roth conversions offer pathways to tax-free income in retirement, they serve different purposes. Elective deferrals are focused on how you choose to contribute to your retirement plan moving forward, while in-plan conversions allow you to optimize the tax status of the funds you've already accumulated.

When deciding between these strategies—or considering a combination of both—it's important to assess your:

- **Current financial situation**
- **Expected tax bracket in retirement**
- **Long-term retirement goals**

Seek guidance. A financial professional can help you evaluate your options and align your strategy with your personal financial objectives.

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