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# SECURE Act Spotlight: Roth 401(k) And Roth IRA Accounts



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Individual tax rates are historically low at this point, with a pending reversion in 2026. The chance of rates increasing in the future is extremely likely. This would put beneficiaries of inherited IRA's in a costly position, especially when in their prime earning years and the inherited amount is a sizable. One way to avoid this problem as an IRA or Qualified Account Owner? Fund Roth accounts.

With the recent changes from the SECURE Act, it is now more important than ever to carefully consider Roth IRAs or Roth 401(k) plans. Although the SECURE Act increased the age of Required Minimum Distributions in Traditional IRA accounts to 72 years old, the benefits were largely outweighed by the elimination of the "Stretch" provision for inherited IRA's and Qualified Plans. This could put their beneficiaries in a tough spot when taking distributions. A quick recap of the new rule:

A provision of the SECURE Act eliminates the ability of the beneficiary to take distributions over the life expectancy and replaces it with a 10-year rule. The 10-year rule provides that distributions must be made to designated beneficiaries within 10 years from the date of the IRA owner's death. Certain 'eligible beneficiaries' (surviving spouse, disabled or chronically ill beneficiary, an individual who is not more than 10 years younger than the IRA owner, a child of the owner who has not reached age of majority) are not subject to the 10-year rule. For non-designated beneficiaries (charity, estates), the old 5-year rule remains unchanged.

There are a couple ways to contribute to Roth accounts: Contributions and Conversions

With Roth IRAs, you are able to contribute up to \$6,000 annually with an additional \$1,000 catch up (age 50+). However, there are income restrictions for these Roth IRA contributions. If you file joint tax returns and your modified Adjusted Gross Income is over \$206,000 you are not able to contribute a penny (\$139,000 Single).

If you are fortunate enough that your employer's qualified plan offers the Roth 401(k) option, you are in luck. Here, there are no income earning limitations, and you can contribute almost four times more than you can with a Roth IRA. In a Roth 401(k) you can contribute the same amounts as a 401(k), which is up to \$26,000 (\$19,500 + \$6,500 age 50+ catch up). Additionally, if your employer's plan allows after tax contributions, you could essentially contribute an additional \$37,500 (\$63,500 Defined Contribution Annual Limit w/catch up) minus any employer match, into the after-tax bucket, then convert those assets right into the Roth 401(k).

Keep in mind that with a Roth 401(k), you are still susceptible to the RMD Rule at age 72 (typically only for pre-tax assets, not Roth assets). Because it is in a 401(k) plan, the IRS has trouble deciphering the

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difference between the two pre-tax and post-tax buckets. The IRS will force you to take RMD distributions based off your total account balance within the employer's qualified plan. To avoid this confusion, we recommend rolling the Roth 401(k) assets out before the year you reach age 72.

An important caveat to remember about Roth accounts is the 5-Year Rule. Roth IRAs must be opened for five calendar years, or you will pay tax on any growth that is withdrawn, and possibly an additional 10% penalty if under age 59 ½. Many people do not realize however, that a Roth 401(k) and a Roth IRA have separate 5-year clocks. For example, if you've been contributing to a Roth 401(k) for ten years and transfer those assets into a newly established Roth IRA, the clock restarts. This is one of the biggest misinterpretations people make. If they are funding a Roth 401(k), we would advise to open and fund a Roth IRA as well to get the separate, five-year clock started.

Conversions from a 401(k) or IRA into a Roth, have their own individual 5-year clocks. For example, if you converted traditional IRA assets to a Roth IRA in 2019, the five-year period for those assets began January 1, 2019. If you later convert other traditional IRA assets to a Roth IRA in 2020, the 5-year period for those assets begins January 1, 2020.

Keep in mind, if you have a Roth IRA that has regular contributions, transfers, and conversion assets, the IRS ordering rules of withdrawals are contributions and transfers first, followed by conversions, and then earnings. While withdrawing conversions, the oldest conversions are withdrawn first.

With the new SECURE Act rules in mind and higher tax brackets likely ahead of us, now more than ever, it is important to consider whether Roth accounts make sense for you. Just make sure you understand the differences between Roth accounts and contribution rules as you move forward.

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