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What is the Roth 401(k) five-year rule?



The Roth 401(k) five-year rule determines when you can begin receiving tax-free qualified distributions from your 401(k) plan Roth account. While it's similar to the five-year rule that applies to Roth IRAs, there are important differences.

Withdrawals from your Roth 401(k) plan account—including both your contributions and any investment earnings—are completely tax and penalty free if you satisfy a five-year holding period *and* one of the following also applies:

- You've reached age 59½
- You have a qualifying disability, or
- The withdrawal is made by your beneficiary or estate after your death

The five-year holding period begins on the first day of the calendar year in which you make your first Roth 401(k) contribution (regular or rollover) to the plan. For example, if you make your first Roth contribution to your company's 401(k) plan in December 2015, your five-year holding period begins on January 1, 2015, and ends on December 31, 2019.

If you participate in 401(k) plans maintained by different employers, your five-year holding period is determined separately for each plan. But there's an important exception. If you make a direct rollover of Roth dollars from your prior employer's plan to your new employer's plan, your five-year holding period for the new plan will be deemed to start with the year you made your first Roth contribution to the prior plan.

For example, Beth made Roth contributions to the Acme 401(k) plan beginning in 2011. In 2015, she changed jobs and began making Roth contributions to the Beacon 401(k) plan. Her five-year holding period for the Acme plan began on January 1, 2011, and ends on December 31, 2015. Her five-year holding period for the Beacon plan began on January 1, 2015, and ends on December 31, 2019. In 2015, Beth decides to make a direct rollover of her Acme Roth account to Beacon's 401(k) plan. Because of the rollover, Beth's January 1, 2011, starting date at Acme will carry over to the Beacon plan, and any distributions she receives from her Beacon Roth account after 2015 (rather than 2018) will be tax free (assuming she's at least age 59½ or disabled at the time of distribution).

IMPORTANT DISCLOSURES

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