More ways to save for your future

In-plan Roth and Super Roth conversion strategy

A Super Roth strategy

Using a Super Roth strategy, you can make voluntary after-tax contributions and convert them to Roth. This can be done as a one-time conversion or on an ongoing basis. This strategy gives you a way to increase your Roth account beyond what you could normally contribute to the plan in added Roth deferrals.

When you convert, you'll owe taxes on any investment earnings received up to the time of conversion. The income taxes are not withheld at the time of conversion and the value will be reported to you on a Form 1099-R in the year of the conversion. You'll report this amount when you file your tax return for the conversion year.

Automatically converting to Roth allows you to limit the tax impact

Make after-tax contributions › **Automatically convert each contribution to Roth** › **Grow tax-free within the Roth account**

Take advantage of Super Roth strategy at **principal.com/SuperRoth**

Understand your contribution options

	Pre-tax elective deferral	Roth elective deferral	Voluntary after-tax[4]
Contributions	Deducted from your pay **before** taxes	Deducted from your pay **after** taxes	
Early distributions (prior to age 59½)[1]	Contributions and earnings are taxable	Contributions—tax-free; earnings—taxable	
Qualified distribution	Contributions and earnings are taxable	Tax-free[2]	Contributions—tax-free; earnings—taxable

[1] Possibly subject to additional 10% early distribution tax.

[2] A Qualified distribution is one that is made after age 59½, death or disability and must be taken at least five years after the first Roth contribution was made. This five year period determines whether or not the earnings will be tax-free.

[3] The recapture five year period determines whether conversion principal will be penalty-free.

[4] The Plan may have limits on voluntary after-tax contributions and these contributions may not be eligible for employer matching contributions.

What is a qualified distribution?

To ensure tax-free treatment at distribution, distributions must be deemed "qualified" and must be made after one of the following events:

- A participant's reaching age 59½
- A participant's death
- A participant becoming disabled

Qualified distributions may not be made within the first five taxable years after the Roth contribution to the plan account is established.[2] For example, if the Roth elective deferral account is first established June 1, 2021, the five-taxable-year period ends Dec. 31, 2025.

What if I take a distribution that is not considered qualified?

Earnings distributed from a Roth account will be subject to taxation as well as the possibility of an Internal Revenue Service (IRS) 10% early distribution tax unless the distribution is qualified.[2] Additionally, a 5-year recapture rule[3] can apply to distributions from in-plan Roth conversion funds.

How do I calculate the 5-year recapture rule?

The 5-year recapture period starts on January 1 of the year of the conversion. Distributions from the in-plan Roth conversion account made prior to the 5-year recapture period may trigger the 10% early-distribution tax on the taxable amount (the principal) converted, unless an exception applies.

For example, if the in-plan Roth conversion is completed in December 2021, then 2021 is the first taxable year of the 5-year recapture period stretching from 2021 through 2025 for the taxable amount (principal) converted. If a second in-plan Roth conversion is completed in April 2022, then 2022 is the first taxable year of the 5-year recapture period stretching from 2022 through 2026 for the taxable amount (principal) converted.

In-plan Roth conversion features

A one time in-plan Roth conversion allows you to convert a lump sum of your vested account balance from pre-tax or non-Roth after-tax to Roth.

Earnings in these converted accounts can grow tax-free, however:

- The converted balance is considered taxable income for the year the conversion is made. Two conversion amounts will be reported on a Form 1099-R.
- Since the gross amount converted was taxed at the point of the conversion, these amounts will not be taxed when withdrawn. The earnings on the converted Roth funds would be considered tax-free if the distribution is a qualified distribution.[2]

Select a non-Roth portion of your account to convert > **Pay taxes on any pre-tax amounts and earnings converted** > **Grow tax-free within the Roth account**

Want to make a one-time, in-plan Roth transfer conversion? **Login to principal.com, select Contributions, then Roth conversions**

Here are some things to keep in mind:

- You have to pay taxes on any pre-tax contributions and earnings, and earnings on any after-tax contributions (if applicable) in the year you transfer it.
- A conversion can't be undone.
- There is typically no fee for conversion.
- How close you are to retirement and how long you expect to be in retirement can impact your decision.
- How you plan to use your retirement savings can also play a role. For example, if you plan to leave your savings to a charity that doesn't pay taxes, then conversion may be unnecessary.
- There may be tax implications. You may want to consider making estimated tax payments to avoid penalties.
- The account still has to follow required minimum distribution rules even if it's been converted to Roth.

[2] A Qualified distribution is one that is made after age 59½, death or disability and must be taken at least five years after the first Roth contribution was made. This five year period determines whether or not the earnings will be tax-free.

How do I know if converting to Roth might be good for me?

A Roth conversion can be a powerful tax-planning strategy that can provide tax-free income in retirement. If you anticipate on maxing out contributions or that you could end up in a higher tax bracket after retirement.

It may make sense to consider a one-time Roth conversion or an ongoing Super Roth election. Both options allow you to pay taxes on money now rather than leaving it at a non-Roth account and paying taxes on withdrawals after retirement.

You will want to carefully weigh the advantages and disadvantages of an in-plan Roth conversion with your tax advisor or financial professional.

Is an in-plan Roth conversion subject to the 20% mandatory federal tax withholding?

No. The 20% mandatory withholding does not apply to an in-plan Roth conversion. However, if you elect an in-plan Roth conversion, the taxable portion of the conversion is subject to income tax.

Note: Electing an in-plan Roth conversion may mean you may make payments to avoid an underpayment penalty when filing your tax return. Before making such a decision, always consult with your individual tax advisor or financial professional and refer to IRS Publication 505, Tax Withholding and Estimated Tax for additional information on withholding of taxes.

Review your contributions and options available to you. Login to principal.com

Principal®