Retirement Plans FAQs on Designated Roth Accounts

A designated Roth account is a separate account in a 401(k), 403(b) or governmental 457(b) plan that holds designated Roth contributions. The amount contributed to a designated Roth account is includible in gross income in the year of the contribution, but eligible distributions from the account (including earnings) are generally tax-free. The employer must separately account for all contributions, gains and losses to this designated Roth account until this account balance is completely distributed.

These FAQs provide general information and should not be cited as legal authority.

General Questions on Designated Roth Accounts in Retirement Plans

1. **What is a designated Roth account?**
2. **When can I start making designated Roth contributions to a designated Roth account?**
3. **Does my employer need to establish a new account in its 401(k), 403(b), or governmental 457(b) plan to receive my designated Roth contributions?**
4. **Does separate account refer to the actual funding vehicle or does it refer to separate accounting within the plan's trust?**

What is a designated Roth account?

A designated Roth account is a feature in new or existing 401(k), 403(b) or governmental 457(b) plans. If a plan includes a designated Roth feature, employees can designate some or all of their elective deferrals as designated Roth contributions (which are included in gross income), rather than traditional, pre-tax elective contributions.

When can I start making designated Roth contributions to a designated Roth account?

You may begin making designated Roth contributions to your 401(k), 403(b) or governmental 457(b) plan after you become a participant in a plan that allows contributions to Roth accounts. If your plan doesn't have a designated Roth feature, the plan sponsor must amend the plan to add this feature before you can make designated Roth contributions.

Does my employer need to establish a new account under its 401(k), 403(b) or governmental 457(b) plan to receive my designated Roth contributions?

Yes, your employer must establish a new separate account for each participant making designated Roth contributions and must keep the designated Roth contributions completely separate from your previous and current traditional, pre-tax elective contributions.

Does separate account refer to the actual funding vehicle or does it refer to separate accounting within the plan's trust?

Under IRC Section 402A, the separate account requirement can be satisfied by any means by which an employer can separately and accurately track a participant's designated Roth contributions, along with corresponding gains and losses.

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Designated Roth Contributions

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11. **Can a plan offer only designated Roth contributions?**
12. **Can a plan automatically enroll me to make designated Roth contributions if I fail to decline participation?**
13. **Can I make a designated Roth contribution for my spouse if my spouse has no earned income, as permitted with a spousal IRA account?**
14. **If my only participation in a retirement plan is through non-deductible designated Roth contributions to a designated Roth account, can I make a deductible IRA contribution regardless of my income, or do the active participant rules apply?**
15. **If an employer offers designated Roth contributions to one participant in a 403(b) plan, must the employer offer them to all other participants in that plan?**

What is a designated Roth contribution?

A designated Roth contribution is a type of elective deferral that employees can make to their 401(k), 403(b) or governmental 457(b) retirement plan.

With a designated Roth contribution, the employee irrevocably designates the deferral as an after-tax contribution that the employer must deposit into a designated Roth account. The employer includes the amount of the designated Roth contribution in the employee's gross income at the time the employee would have otherwise received the amount in cash if the employee had not made the election. It is subject to all applicable wage-withholding requirements.

The law does not allow designated Roth contributions in SARSEP or SIMPLE IRA plans.

Can I make both pre-tax elective and designated Roth contributions in the same year?

Yes, you can contribute to both a designated Roth account and a traditional, pre-tax account in the same year in any proportion you choose.

Is there a limit on how much I may contribute to my designated Roth account?

Yes, the combined amount contributed to all designated Roth accounts and traditional, pre-tax accounts in any one year for any individual is limited (under IRC Section 402(g)). The limit is $22,500 in 2023 ($20,500 in 2022; $19,500 in 2020 and 2021; $19,000 in 2019), plus an additional $7,500 in 2023 ($6,500 in 2020, 2021 and 2022 and $6,000 in 2015 – 2019) if you are age 50 or older at the end of the year. These limits may be increased in later years to reflect cost-of-living adjustments.

Can I make age-50 catch-up contributions as a designated Roth contribution to my designated Roth account?

Yes, provided you are age 50 or older by the end of the year and the plan permits these contributions.

Can I contribute the maximum, including catch-up contributions, to both a designated Roth account and a Roth IRA in the same year?

Yes, for 2022, if you are age 50 or older, you can make a contribution of up to $27,000 to your 401(k), 403(b) or governmental 457(b) plan ($20,500 regular and $6,500 catch-up contributions) and $7,000 to a Roth IRA ($6,000 regular and $1,000 catch-up IRA contributions) for a total of $34,000. Income limits apply to Roth IRA contributions, however. For 2023, if you are age 50 or older, you can make a contribution of up to $30,000 to your 401(k), 403(b) or governmental 457(b) plan ($22,500 regular and $7,500 catch-up contributions) and $7,500 to a Roth IRA ($6,500 regular and $1,000 catch-up IRA contributions) for a total of $37,500. Income limits apply to Roth IRA contributions, however.

When must I be able to elect to make designated Roth contributions?

You must have an effective opportunity to make (or change) an election to make designated Roth contributions at least once during each plan year. The plan must state the rules governing the frequency of the elections. These rules must apply in the same manner to both pre-tax elective contributions and designated Roth contributions. You must make a valid designated Roth election, under your plan's rules, before you can place any money in a designated Roth account.

Do the same income restrictions that apply to Roth IRAs apply to designated Roth contributions?

No, there are no limits on your income in determining if you can make designated Roth contributions. Of course, you have to have salary from which to make any 401(k), 403(b) or governmental 457(b) deferrals.

Can my employer match my designated Roth contributions? Must my employer allocate the matching contributions to a designated Roth account?

Yes, your employer can make matching contributions on your designated Roth contributions. However, your employer can only allocate your designated Roth contributions to your designated Roth account. Your employer must allocate any contributions to match designated Roth contributions into a pre-tax account, just like matching contributions on traditional, pre-tax elective contributions.

Can employers allocate plan forfeitures to designated Roth accounts?

Employers can only allocate designated Roth contributions and rollover contributions (and earnings on these contributions) to designated Roth accounts. The employer may not allocate forfeitures, matching or any other employer contributions to any designated Roth accounts.

Can I change my mind and have designated Roth contributions treated as pre-tax elective contributions?

No. Once you designate contributions as Roth contributions, you cannot later change them to traditional, pre-tax elective contributions.

Can a plan offer only designated Roth contributions?

No, in order to provide for designated Roth contributions, a plan must also offer traditional, pre-tax elective contributions.

Can a plan automatically enroll me to make designated Roth contributions if I fail to decline participation?

Yes, a plan can provide that your employer will automatically withhold elective deferrals from your pay unless you decline participation. If the plan has both traditional, pre-tax elective contributions and designated Roth contributions, the plan must state how the employer will allocate your automatic contributions between the pre-tax elective contributions and designated Roth contributions.

Can I make a designated Roth contribution for my spouse if my spouse has no earned income, as permitted with a spousal IRA account?

No. Although you can contribute to a traditional or Roth IRA for your spouse based on your earned income, you cannot contribute to a Roth 401(k), Roth 403(b) or Roth governmental 457(b) for your spouse.

If my only participation in a retirement plan is through non-deductible designated Roth contributions to a designated Roth account, can I make a deductible IRA contribution regardless of my income, or do the active participant rules apply?

You can contribute to a traditional IRA (up to the maximum IRA dollar limits) regardless of whether or not you are an active participant in a plan. However, when determining whether you can deduct a contribution to a traditional IRA, the active participant rules under IRC Section 219 apply. You are an active participant if you make designated Roth contributions to a designated Roth account. As such, your ability to deduct contributions made to a traditional IRA depends on your modified adjusted gross income.

If an employer offers designated Roth contributions to one participant in a 403(b) plan, must the employer offer them to all other participants in the plan?

Yes. Under the universal availability requirement of IRC Section 403(b)(12), if any employee is given the opportunity to designate IRC Section 403(b) elective deferrals as designated Roth contributions, then all employees must be given that right.

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Distributions from Designated Roth Accounts

1. **What is a qualified distribution from a designated Roth account?**
2. **What is a 5-taxable-year period of participation? How is it calculated?**
3. **What types of distributions cannot be qualified distributions and must be included in gross income?**
4. **What happens if I take a distribution from my designated Roth account before the end of the 5-taxable-year period?**
5. **Since I make designated Roth contributions from after-tax income, can I make tax-free withdrawals from my designated Roth account at any time?**
6. **Is a distribution from my designated Roth account for reasons beyond my control (for example, plan termination or severance from employment) a qualified distribution even though it doesn't meet the criteria for a qualified distribution?**
7. **Can I take a loan from my designated Roth account?**

What is a qualified distribution from a designated Roth account?

A qualified distribution is generally a distribution that is made after a 5-taxable-year period of participation and is either:

1. made on or after the date you attain age 59½
2. made after your death, or
3. attributable to your being disabled.

If a distribution is made to your alternate payee or beneficiary, then your age, death or disability is used to determine whether the distribution is qualified. The only exception is when the alternate payee or surviving spouse rolls over the distribution to his or her own employer’s designated Roth account, in which case their own age, death or disability is used to determine whether the distribution is qualified.

A qualified distribution from a designated Roth account is not included in your gross income.

What is a 5-taxable-year period of participation? How is it calculated?

The 5-taxable-year period of participation begins on the first day of your taxable year for which you first made designated Roth contributions to the plan. It ends when five consecutive taxable years have passed. If you make a direct rollover from a designated Roth account under another plan, the 5-taxable-year period for the recipient plan begins on the first day of the taxable year that you made designated Roth contributions to the other plan, if earlier.

If you are a re-employed veteran making designated Roth contributions, they are treated as made in the taxable year of qualified military service that you designate as the year to which the contributions relate.

Certain contributions do not start the 5-taxable-year period of participation. For example, a year in which the only contributions consist of excess deferrals will not start the 5-taxable-year period of participation. Further, excess contributions that are distributed to prevent an ADP failure also do not begin the 5-taxable-year period of participation.

What types of distributions cannot be qualified distributions and must be included in gross income?

You cannot treat the following types of distributions from a designated Roth account as qualified distributions (or eligible rollover distributions) and must include any earnings paid out in gross income:

- Corrective distributions of elective deferrals in excess of the IRC Section 415 limits (lesser of $66,000 for 2023 ($61,000 for 2022; $58,000 for 2021; $57,000 for 2020) or 100% of earnings).
- Corrective distributions of excess deferrals under Section 402(g) ($22,500 for 2023; $20,500 for 2022; $19,500 for 2020 and for 2021) If age 50 or older in 2023, $30,000 ($27,000 if age 50 or older in 2022 and $26,000 if age 50 or older in 2020 and 2021).
- Corrective distributions of excess contributions or excess aggregate contributions.
- Deemed distributions under IRC Section 72(p) (where you default on repayment of a loan from the plan).

What happens if I take a distribution from my designated Roth account before the end of the 5-taxable-year period?

If you take a distribution from your designated Roth account before the end of the 5-taxable-year period, it is a nonqualified distribution. You must include the earnings portion of the nonqualified distribution in gross income. However, the basis (or contributions) portion of the nonqualified distribution is not included in gross income. The basis portion of the distribution is determined by multiplying the amount of the nonqualified distribution by the ratio of designated Roth contributions to the total designated Roth account balance. For example, if a nonqualified distribution of $5,000 is made from your designated Roth account when the account consists of $9,400 of designated Roth contributions and $600 of earnings, the distribution consists of $4,700 of designated Roth contributions (that are not includible in your gross income) and $300 of earnings (that are includible in your gross income).

See Q&As regarding Rollovers of Designated Roth Contributions, for additional rules for rolling over both qualified and nonqualified distributions from designated Roth accounts.

Since I make designated Roth contributions from after-tax income, can I make tax-free withdrawals from my designated Roth account at any time?

No, the same restrictions on withdrawals that apply to pre-tax elective contributions also apply to designated Roth contributions. If your plan permits distributions from accounts because of hardship, you may choose to receive a hardship distribution from your designated Roth account. The hardship distribution will consist of a pro-rata share of earnings and basis and the earnings portion will be included in gross income unless you have had the designated Roth account for 5 years and are either disabled or over age 59 ½.

Is a distribution from my designated Roth account for reasons beyond my control (for example, plan termination or severance from employment) a qualified distribution even though it doesn't meet the criteria for a qualified distribution?

No, if you have not held the account for more than 5 years or if the distribution is not made after death, disability, or age 59 ½, then the distribution is not a qualified distribution. However, you could roll the distribution over into a designated Roth account in another plan or into your Roth IRA. A transfer to another designated Roth account must be made through a direct rollover.

Can I take a loan from my designated Roth account?

Yes, if the plan permits, you can identify from which account(s) in your 401(k), 403(b) or governmental 457(b) plan you wish to draw your loan, including from your designated Roth account. However, you must combine any loans you take from your designated Roth account with any other outstanding loans from that plan and any other plan maintained by the employer to determine the maximum amount you are permitted to borrow. The repayment schedule for your loan from your designated Roth account must separately satisfy the amortization and quarterly payment requirements.

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Rollovers from Designated Roth Accounts

Can I roll over distributions from a designated Roth account to another employer's designated Roth account or into a Roth IRA?

Yes. However, because a distribution from a designated Roth account consists of both pre-tax money (earnings on the Roth contributions) and basis (Roth contributions), it must be rolled over into a designated Roth account in another plan through a direct rollover. If the distribution is made directly to you and then rolled over within 60 days, the basis portion cannot be rolled over to another designated Roth account, but can be rolled over into a Roth IRA.

If only a portion of the distribution is rolled over, the rolled over portion is treated as consisting first of the amount of the distribution that is includible in gross income. Alternatively, you may roll over the taxable portion of the distribution to another plan's designated Roth account within 60 days of receipt. However, your period of participation under the distributing plan is not carried over to the recipient plan for purposes of measuring the 5-taxable-year period under the recipient plan.

The IRS may waive the 60-day rollover requirement in certain situations if you missed the deadline because of circumstances beyond your control. See FAQs: Waivers of the 60-Day Rollover Requirement.

How is the 5-taxable-year period calculated when I roll over a distribution from a designated Roth account to a Roth IRA?

When you roll over a distribution from a designated Roth account to a Roth IRA, the period that the rolled-over funds were in the designated Roth account does not count toward the 5-taxable-year period for determining qualified distributions from the Roth IRA. However, if you had contributed to any Roth IRA in a prior year, the 5-taxable-year period for determining qualified distributions from a Roth IRA is measured from the earlier contribution. So, if the earlier contribution was made more than 5 years ago and you are over 59 ½ a distribution of amounts attributable to a rollover contribution from a designated Roth account would be a qualified distribution from the Roth IRA.

Are there any examples to help explain the rollover rules?

Yes, the following examples illustrate the rollover rules.

1. Bob receives a $14,000 eligible rollover distribution that is not a qualified distribution from Bob's designated Roth account, consisting of $11,000 of basis and $3,000 of income. Within 60 days of receipt, Bob rolls over $7,000 of the distribution into a Roth IRA. The $7,000 is deemed to consist of $3,000 of income and $4,000 of basis. Because the only portion of the distribution that could be includible in gross income (the income) is rolled over, none of the distribution is includible in Bob's gross income.
2. Carrie receives a $12,000 distribution from her designated Roth account that is a qualified distribution attributable to her being disabled. Immediately prior to the distribution, the account consisted of $21,850 of basis (designated Roth contributions) and $1,150 of income. For purposes of determining recovery of basis, the distribution is deemed to consist of $11,400 of basis [$12,000 × 21,850/(1,150 + 21,850)], and $600 of

income [$12,000 × 1,150/(1,150 + 21,850)]. Immediately after the distribution, Carrie's designated Roth account consists of $10,450 of basis and $550 of income. This determination of the remaining investment in the contract will be needed if Carrie subsequently is no longer disabled and takes a nonqualified distribution from the designated Roth account.

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In-plan Rollovers

What is an "in-plan Roth rollover"?

An in-plan Roth rollover is a rollover from your account, other than an account that holds designated Roth contributions, to your designated Roth account in the same plan.

Which retirement plans may offer in-plan Roth rollovers?

401(k), 403(b) and 457(b) governmental plans that have designated Roth accounts may offer in-plan Roth rollovers.

Who is eligible to do an in-plan Roth rollover?

Participants, surviving spouse beneficiaries and alternate payees who are current or former spouses are eligible to do an in-plan Roth rollover in a plan offering these rollovers.

How can I do an in-plan Roth rollover?

If your plan allows them, you can do an in-plan Roth:

- Direct rollover by asking the plan trustee to transfer your non-Roth amount to a designated Roth account in the same plan (in-plan Roth rollovers of amounts not normally distributable must be accomplished via a direct rollover), or

- 60-day rollover by having the plan distribute an eligible rollover distribution to you from your non-Roth account and then depositing all or part of that distribution to a designated Roth account in the same plan within 60 days. The IRS may waive the 60-day rollover requirement in certain situations if you missed the deadline because of circumstances beyond your control. See FAQs: Waivers of the 60-Day Rollover Requirement.

Can I recharacterize an in-plan Roth rollover?

No, you may not recharacterize an in-plan Roth rollover.

What amounts may I roll over in an in-plan Roth rollover?

If your plan allows it, you can roll over any vested plan balance, including earnings, to a designated Roth account, even if these amounts can't be distributed to you. You can make an in-plan Roth rollover of:

- elective deferrals,
- matching contributions (including qualified matching contributions),
- nonelective contributions (including qualified nonelective contributions),
- rollover contributions,
- after-tax employee contributions and
- earnings on the above contributions.

The plan can specify which of these amounts are eligible for in-plan Roth rollovers and how often these rollovers can be done.

Can I get a distribution while I am still an employee (an in-service distribution) and roll over that distribution as an in-plan Roth rollover?

Your plan may limit in-plan Roth rollovers to distributable amounts. If so, your plan may allow an in-service distribution of vested amounts in your plan accounts that you may be able to roll over to a designated Roth account in the same plan. Your plan must state the rules for when you may obtain an in-service distribution.

Can my outstanding plan loan be part of an in-plan Roth rollover?

Yes. If the plan allows, you may roll over your outstanding loan balance from the plan's non-Roth account into the plan's designated Roth account through a direct rollover as long as there is no change in the loan's repayment schedule. The loan's taxable amount when rolled over as an in-plan Roth direct rollover would be the balance of the loan at the time of the rollover.

Can I borrow any amount that is part of an in-plan Roth rollover?

If your plan allows loans, you can borrow any amount that is in your designated Roth account, including amounts that you rolled over into that account as an in-plan Roth rollover.

Is income tax withholding required on in-plan Roth rollovers?

There is no income tax withholding required on an in-plan Roth direct rollover. However, if you receive a distribution from your plan, the plan must withhold 20% federal income tax on the untaxed amount even if you later roll over the distribution to a designated Roth account within 60 days. The IRS may waive the 60-day rollover requirement in certain situations if you missed the deadline because of circumstances beyond your control. See FAQs: Waivers of the 60-Day Rollover Requirement.

How are in-plan Roth rollovers taxed?

You generally include the taxable amount (fair market value minus your basis in the distribution) of an in-plan Roth rollover in your gross income for the tax year in which you receive it.

Plan sponsors shouldn't withhold taxes from direct rollovers to designated Roth accounts, but employees who make in-plan Roth rollovers may need to increase their withholding or make estimated tax payments to avoid an underpayment penalty.

In-plan Roth rollovers are not subject to the 10% additional tax on early distributions. However, they are subject to a **special recapture rule** when a plan distributes any part of an in-plan Roth rollover within a 5-taxable-year period, making the distribution subject to the 10% additional tax on early distributions under IRC Section 72(t) unless:

- an exception to this tax applies, or
- the distribution is allocable to any nontaxable portion of the in-plan Roth rollover.

The 5-taxable-year period begins January 1 of the year of the in-plan Roth rollover and ends on December 31 of the fifth year. This special recapture rule does not apply when you roll over the distribution to another designated Roth account or to your Roth IRA, but does apply to a subsequent distribution from the rolled over account or IRA within the 5-taxable-year period.

Must my spouse consent to my in-plan Roth direct rollover?

No. A distribution rolled over as an in-plan Roth direct rollover is not treated as a distribution requiring your spouse's consent.

Must my plan provide me notice of the in-plan Roth rollover feature?

If the in-plan Roth rollover is of an amount that could be distributed to you under the plan, then the plan must include a description of it in the written explanation (402(f) Notice) that it gives to participants who receive an eligible rollover distribution. However, no 402(f) Notice is required for an in-plan Roth rollover of an amount that couldn't be distributed at the time of the rollover.

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Reporting & Recordkeeping Requirements for Designated Roth Accounts

1. **Who is responsible for keeping track of the designated Roth contributions and 5-taxable-year period?**
2. **Since a qualified distribution from a designated Roth account is not subject to taxation, must the distribution be reported?**
3. **Since designated Roth contributions are already included as part of wages, tips & other compensation on Form W-2, must designated Roth contributions also be identified on Form W-2?**
4. **Do employees have any recordkeeping or reporting obligations?**

Who is responsible for keeping track of the designated Roth contributions and 5-taxable-year period?

The plan administrator is responsible for keeping track of the amount of designated Roth contributions made for each employee and the date of the first designated Roth contribution for calculating an employee's 5-taxable-year period. In addition, the plan administrator of a plan directly rolling over a distribution would be required to provide the administrator of the plan accepting the eligible rollover distribution) with a statement indicating either the first year of the 5-taxable-year period for the employee and the portion of the distribution attributable to basis or that the distribution is a qualified distribution.

Since a qualified distribution from a designated Roth account is not subject to taxation, must the distribution be reported?

Yes, a distribution from a designated Roth account must be reported on Form 1099–R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. PDF

For direct rollovers, the plan administrator is required to provide the plan administrator of the plan accepting an eligible rollover distribution, with a statement indicating either the first year of the 5-taxable-year period for the employee and the portion of the distribution attributable to basis, or, that the distribution is a qualified distribution.

For other distributions, the plan administrator must provide to the employee, upon request, the portion of the distribution attributable to basis or that the distribution is a qualified distribution. The statement is required to be provided within a reasonable period following the employee request, but in no event later than 30 days following the employee request.

Since designated Roth contributions are already included as part of wages, tips & other compensation on Form W-2, must designated Roth contributions also be identified on Form W-2?

Yes, contributions to a designated Roth account must be reported separately on Form W–2, Wage and Tax Statement PDF.

Do employees have any recordkeeping or reporting obligations?

An employee has no reporting obligation with designated Roth contributions in a plan. However, an employee rolling over a distribution from a designated Roth account to a Roth IRA should keep track of the amount rolled over in accordance with the instructions PDF to Form 8606, Nondeductible IRAs PDF.

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Miscellaneous

1. **Are my designated Roth contributions included in the 401(k) plan annual nondiscrimination testing?**
2. **If I am required to take a corrective distribution from my 401(k) plan because the plan failed the ADP nondiscrimination test, can I take some or all of the corrective distribution from my designated Roth account?**
3. **Are designated Roth accounts included when determining whether a plan is top-heavy?**

Are my designated Roth contributions included in the 401(k) plan annual nondiscrimination testing?

Yes, designated Roth contributions are treated the same as traditional, pre-tax elective contributions when performing annual nondiscrimination testing.

If I am required to take a corrective distribution from my 401(k) plan because the plan failed the ADP nondiscrimination test, can I take some or all of the corrective distribution from my designated Roth account?

Yes, a plan can provide that a highly compensated employee (HCE), as defined in Code Section 414(q), with both traditional, pre-tax elective contributions and designated Roth contributions during a year may elect to attribute excess contributions to pre-tax elective or designated Roth contributions. The plan does not have to provide this option and may provide for correction without permitting an HCE to make this election.

A distribution of excess contributions is not includible in gross income if it is a distribution of designated Roth contributions. However, the income allocable to a corrective distribution of excess contributions that are designated Roth contributions is includible in gross income in the same manner as income allocable to a corrective distribution of excess contributions that are pre-tax elective contributions. The final Roth 401(k) regulations also provide a similar rule under the correction methods that a plan may use if it fails to satisfy the actual contribution percentage test.

Are designated Roth accounts included when determining whether a plan is top-heavy?

Yes, they are treated just like other elective deferral accounts and must be included when calculating the top-heavy ratio each year.

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Have a Question?

If I have additional questions concerning designated Roth accounts, where do I go for help?

We regret that we cannot answer technical questions. If you have account-specific questions, see EP Customer Account Services. Also see our complete line of Forms and Pubs regarding retirement plans.

For other questions regarding retirement plans, visit our Frequently Asked Questions.

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Page Last Reviewed or Updated: 15-Apr-2024