



YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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IRS Okays Rollover of After-Tax 401(k) Dollars

Plan sponsors, take note: After years of ambiguity around what is and is not allowed regarding the treatment of after-tax contributions to employer-sponsored retirement plans, the IRS has ruled definitively that participants can roll those dollars into a Roth IRA tax free.

The IRS indicated that the new ruling -- Notice 2014-54, Guidance on Allocation of After-Tax Amounts to Rollovers -- applies equally to 401(k), 403(b), and 457 plans and can be applied to distributions made on or after January 1, 2015. Citing adherence to an earlier ruling, the IRS stated that taxpayers generally can apply the new rule to distributions made before that date.

The IRS decision ends years of speculation among retirement savers, plan sponsors, and financial advisors about how best to deal with distributions of after-tax retirement plan contributions. Previous guidance from the IRS did not spell out specific rules against separating pretax and after-tax contributions into different vehicles, but its language indicated a strong bias against doing so. This new ruling clears the air -- and better yet -- simplifies the process.

It should be noted that the IRS guidance applies only to monies being distributed from an employer-sponsored retirement plan, not IRAs.

Plan Sponsors: A New Opportunity

The new ruling presents an opportunity for plan sponsors to reach out to plan participants to determine which individuals have after-tax money in their plans, and to explain the new rules -- and the new opportunity -- to them. Further, for those participants who are not currently making after-tax contributions, sponsors may want to encourage them to do so, if their plan design allows.

With the current annual pretax contribution limit of \$17,500 -- or \$23,000 for individuals age 50 or older -- high-earning employees who are not making after-tax contributions are missing out on the chance to sock away significantly more (the annual total contribution cap on defined contribution plans is \$52,000 in 2014) while benefitting from tax-deferred investment growth.

¹*The Internal Revenue Service, Notice 2014-54, "Guidance on Allocation of After-Tax Amounts to Rollovers," September 18, 2014.*

ThinkAdvisor, "IRS Finally Answers After-Tax IRA Rollover Question," September 18, 2014.

InvestmentNews, "IRS Shifts Course With New Rollover Distribution Rule," September 18, 2014.

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