



## Fiscal Cliff Deal Expands In-Plan Roth Conversions

### Background

On January 2, 2013, President Obama signed the American Taxpayer Relief Act of 2012. The new law includes a provision allowing for **all vested** monies in 401(k) plans as well as 403(b) plans to be converted to Roth.

The plan must have a Roth deferral contribution feature, and the new provision became effective immediately upon enactment of the new law.

### What Changed?

Previously, a participant could do an in-plan Roth conversion. This included accounts of participants who had attained age 59½, and vested employer contributions that were not subject to 401(k) withdrawal restrictions (if the contributions had been in the plan for at least two years, or the employee had been a participant in the plan for at least five years).

Now all vested assets within 401(k) and 403(b) plans can be converted to Roth within the plan, including employee contributions. A participant still must have the right to take the money out of the plan (a “distributable event”) in order to roll their money over to a Roth IRA.

### Why was this done?

By allowing participants to convert their account balances to Roth, the government raises revenue to help fund the fiscal cliff deal that was signed into law. If a participant does convert, the converted amount will be subject to income tax in the year of conversion. However, the money will grow on a “tax-free” rather than “tax-deferred” basis thereafter.

The new Roth feature is estimated to raise \$12.2 billion over the next ten years.

## Other Issues to Consider

- The plan must have a Roth account that is accepting, or has accepted, Roth elective deferrals. A plan cannot establish Roth accounts solely for the purpose of accepting these in-plan conversions.
- A plan amendment will be required to add this feature and employee notices must be distributed.
- In order to add this feature, your 401(k) or 403(b) recordkeeper will need to update its systems to handle in-plan conversions.
- A participant communication strategy will also need to be developed.

## What Should Plan Sponsors Do Now?

If you are not familiar with Roth conversion rules, you can learn more by visiting our website and downloading *Roth Conversions: A Closer Look* ([www.kravitzinc.com/pubsarticles/pubs\\_401k.html](http://www.kravitzinc.com/pubsarticles/pubs_401k.html)).

If you would like to add this new feature to your plan, or if you have questions about Roth conversion options, please contact your Kravitz Consultant to discuss next steps.

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