

Roth 401(k) Accounts and Required Minimum Distributions

Quick-Take: The SECURE Act created a new rule that was recently clarified in the Final Regulations that were published in July, 2024. Beginning this calendar year, an individual's required minimum distribution (RMD) for their IRA can ignore the balance that is held in that individual's Roth 401(k) account.

Background: Under prior law, when an individual owned both an IRA and a 401(k) account, either a traditional 401(k) or Roth 401(k) account, the value of the balance of the qualified plan account had to be added to the balance of the IRA for purposes of calculating the required minimum distribution (RMD) from the individual's IRA. That changed with the SECURE Act. Recall that the IRA owner's required beginning date (RBD) when RMDs must begin is when the owner's aged 73 is reached.

Old Rule: This technical rule applied when an individual was over the RBD age, they owned an IRA, and they were also *still workings* and contributing to a Roth 401(k) account. However, the *still working* exception that can delay the individual's RBD was not available to the individual, e.g., the *still working* employee, when he/she was a 5% or more owner of the 401(k) sponsor and thus he/she did not qualify for the delay in taking their RMDs. In that narrow situation, the RMD for the IRA was calculated considering the Roth 401(k) balance.

New Rule Example: Roy, age 77, is employed by Bestco and he participates in Bestco's 401(k) plan. Roy has invested in both pre-tax and Roth 401(k) accounts in the Bestco qualified plan. Roy never owned more than 5% of Bestco, so he has been using the *still working* exception to delay in taking RMDs until his retirement. On September 1, 2024 Roy retires from Bestco. Roy wants to *roll* his entire 401(k) balance to a Roth IRA and a traditional IRA. Roy can do both *rollovers*, however, Roy must first receive his RMD from the traditional 401(k) portion, before the balance is *rolled over* to Roy's traditional IRA. Roy's RMD will be calculated without considering Roy's Roth 401(k) dollars that are *rolled over* to his Roth IRA.

Withdrawals From Roth 401(k): The recently released Regulations also confirm that a withdrawal from a Roth 401(k) account in a year that a RMD is required does not count towards satisfying the individual's RMD for that year from other pre-tax retirement accounts. This does not come as a surprise since Roth dollars are after-tax dollars; a qualified plan account's RMD can only be satisfied with distributions from the taxable portion of the qualified plan.

Beneficiaries Impacted: As a reminder, the other new rule under the Regulations that impacts beneficiaries from both pre-tax and Roth retirement accounts, as was previously reported in these missives, is the *annual*/RMD rule faced by a beneficiary. If a qualified plan participant, or an IRA owner, dies on or after his/her RBD for starting to take RMDs, the beneficiaries subject to the SECURE Act's 10-year distribution requirement must also take *annual*/RMDs during that 10-year distribution period, using their own life expectancy to calculate that *annual*/RMD amount. While the new rule allows an individual account *owner* to separate pre-tax from Roth accounts for RMD purposes, this ability is not allowed for a 401(k) participant with both pre-tax and Roth 401(k) accounts who dies. The RBD for the Roth 401(k) account is the same as the RBD for the pre-tax 401(k) account. Accordingly, when an 401(k) participant dies after his/her RBD, any 401(k) beneficiary who is subject to the SECURE Act's 10-year distribution rule must take *annual*/RMDs on the entire inherited account, including the Roth 401(k) portion.

Conclusion: The owner of both an IRA and a Roth 401(k) account who must take RMDs now has a bit more flexibility in determining the amount of RMD he/she must take. However, any 401(k) designated beneficiary (traditional or Roth 401(k)) who is subject to the SECURE Act's 10-year *annual* distribution rule because the account owner died after his/her RBD, must take *annual*/RMDs on the entire inherited 401(k) account amount, including the inherited Roth 401(k) account.

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