In-Plan Roth Conversions

OVERVIEW

Roth contributions are made on an after-tax basis where participants pay taxes up front, and then both contributions and qualified earnings can be withdrawn tax-free in retirement.

When Roth contributions are allowed, Plan document provisions may also allow participants to convert non-Roth assets (such as pre-tax or traditional after-tax contributions) into Roth assets and deposit into a designated Roth account within the same Plan. This is commonly referred to as an in-plan Roth conversion (IPRC).

There are two types of transactions that qualify as an in-plan Roth conversion:

Term	Description
In-Plan Roth Rollover	• Allows participants to move non-Roth contributions into a Roth account within the Plan. • Non-Roth contributions must be eligible for distribution to the participant under the terms of the Plan and must be otherwise eligible for rollover (such as after-tax deferrals or rollover contributions). • Participants are required to meet a qualifying distributable event (such as separation from service, retirement, or In-Service Age 59 ½).
In-Plan Roth Transfer	• Allows participants to move non-Roth contributions for which they are not currently eligible to withdraw (such as elective deferrals or employer contributions) into a Roth account within the Plan. • Participants are not required to meet a qualifying distributable event. • Money sources do not need to be eligible for distribution to the participant under the terms of the Plan.

NOTE: Plan provisions specify whether both IPRC transactions are allowed or if IPRC transactions are limited to either in-plan Roth rollovers or in-plan Roth transfers.

Taxation

Roth

Roth assets and the associated earnings are generally tax-free upon withdrawal if both the following conditions are true:

- Participant attained age 59 ½, death, or disability.
- It has been at least five years since the conversion of the assets.

NOTE: A separate five-year period is tracked for each individual IPRC money source for tax reporting purposes.

However, if a participant takes a distribution from their Roth account prior to meeting the tax-free conditions defined above, earnings are taxable. If the participant is less than age 59½, the transaction is also subject to the 10% early withdrawal penalty (unless another exception applies).

Non-Roth Conversion to Roth

The amount converted into Roth assets is not subject to a 20% mandatory withholding or a 10% early distribution penalty.

However, the taxable portion of the converted amount must be included in the participant's gross income for the year of conversion. The taxable portion varies based on the type of money source being converted as follows:

- Pre-tax contributions: Amount and earnings are taxable
- After-Tax contributions: Only earnings are taxable

NOTE: Per IRS rules, post-1986 after-tax contributions in a 401(k) Plan must be distributed on a pro-rata basis between contributions (basis) and earnings. If a participant is only converting a portion of an after-tax source balance to Roth, the conversion must contain a proportional share of both basis and earnings. However, only the earnings portion of that pro-rata amount is taxable.

Participants are responsible for paying any taxes on the amount converted to Roth the year in which the conversion occurs. Empower does not withhold any taxes on IPRC transactions.

Empower issues the appropriate tax forms for the conversion amount to the participant in the year following the IPRC.

Investing IPRC Assets

In order to retain many of the characteristics of the original money source(s) that are eligible for an IPRC, original money sources must convert to an equivalent in-plan Roth money source with the same disbursement attributes.

If the Plan offers Self-Directed Brokerage (SDB), balances may not be included in the IPRC transaction. For SDB balances to be included, a participant must liquidate these assets and transfer the balances to their core investment account prior to requesting an IPRC.

Participants may choose to convert non-Roth assets that are held in stock, if allowed (and elected) by the Plan.

NOTE: RMD-eligible participants are required to take an RMD prior to any In-Plan Roth conversions.

IPRC Participant Request Methods

Participants may request an IPRC via form or online (commonly referred to as "digital"), as allowed by the Plan. IPRC forms may be requested from an Empower Representative.

Online/digital IPRCs, if allowed by the Plan, can be requested in the following scenarios:

- One-time: An individual request to convert any or all eligible non-Roth sources to Roth.
- Recurring: Participants may establish recurring IPRC requests online. Recurring requests are limited to converting Plan-designated after-tax sources only.

NOTE: Non-U.S. residents are prohibited from submitting online requests and must complete and submit an In-Plan Roth Conversion form.

IPRC Processing Authorization

Empower reviews IPRC requests to determine if the request is in good order. If the request is not in good order, then Empower instructs the participant to contact Empower to provide the missing or corrected information needed for processing. If the request is in good order, next steps vary based on the Plan's elected approval method.

Empower Processes IPRC Without Approval

If the IPRC form or online/digital request is received in good order and meets the Plan's requirements, then Empower processes the request without the Plan Administrator's further approval.

If the application of these guidelines to specific situations is unclear and/or may require discretionary action or decisions, Empower may contact the Plan Administrator

Plan Administrator Approves IPRC

If the IPRC form is received in good order, Empower sends the request to the To Do List feature on the Plan Service Center (PSC) for final review and approval by the Plan Administrator or designated third-party.

If additional information is needed for processing, the Plan Administrator provides the necessary information via the To Do List as part of the review and approval process.

to clarify these guidelines and/or provide guidance regarding an IPRC.

NOTE: Online/digital IPRC requests are only processed via the sponsorless method as described above.

If a signature is required on the IPRC request form, Plan Administrator downloads, prints, and signs the form, then returns a copy of the signed form to Empower via To Do List.