

Traditional and Roth 401(k) deferrals

Key differences



Wealth Management

	Traditional 401(k) deferrals	Roth 401(k) deferrals
Contributions	Funded with pre-tax dollars	Funded with after-tax dollars
Matching contributions	Allowed	Allowed; however, employer matching of Roth 401(k) is treated as pre-tax contributions.
2023 contribution limits	\$22,500 (\$30,000 if age 50 or older)	\$22,500 (\$30,000 if age 50 or older). If participant makes a combination of Roth 401(k) and traditional pre-tax deferrals, the total amount contributed cannot exceed the contribution limit.
Income restrictions	No	No
ADP testing required	Yes, unless plan is a Safe Harbor 401(k)	Yes, unless plan is a Safe Harbor 401(k)
Investment earnings	Tax-deferred earnings	Tax-free earnings
Taxes	Pay taxes on contributions and earnings later. Reduces current income taxes.	Pay taxes on contributions now. Qualified withdrawals are tax-free.
Tax-free distributions	Not available	Two conditions must be met: 1. Distribution must be a “qualified distribution” (attainment of age 59½, death or being disabled) 2. The assets must be held in the account for a minimum of five years starting with the first tax year in which the “Designated Roth 401(k) Account” salary deferral contributions commenced.
Required minimum distribution	At age 72	At age 72. A Roth 401(k) can be rolled over to a Roth IRA where minimum distribution rules do not apply to distributions made prior to death.
Rollovers	Can be rolled over into a traditional IRA and other qualified plans, plan permitting	Can be rolled over into a Roth IRA or a Roth 401(k), plan permitting. The entire amount of a qualified Roth 401(k) account distribution that is rolled over to a Roth IRA is treated as basis in the Roth IRA. If this rollover results in the establishment of a first-ever Roth IRA, then the five-year period starts in the year of the rollover. The Roth 401(k) account’s five-year period does not carry over. In the case of a direct rollover to another Roth 401(k) account, the five-year period is the earlier of the two plans’ five-year periods.

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

RBC Wealth Management does not provide tax or legal advice. All decisions regarding the tax or legal implications of your investments should be made in consultation with your independent tax or legal advisor.

Additional regulatory guidance about designated Roth contributions is expected from the IRS. We recommend that you consult your legal counsel when considering changes to your plan.