Traditional and Roth 401(k) deferrals

Key differences

	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 firstever 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.

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.

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