Roth conversion of pretax assets FAQ

Can I convert my pretax assets to a Roth?

If your plan has elected to permit in-plan Roth conversions, you can convert all or any portion of your pretax assets to Roth (after-tax) assets without having to take an actual distribution from the Plan. This is known as an in-plan Roth conversion.

The amount of the in-plan Roth conversion is subject to ordinary income taxes in the year of the conversion. **It is important that you fully understand the impact this will have on your income taxes, including estimated tax payments, both at the federal and state levels. Under federal law, once an in-plan Roth conversion is processed, it cannot be reversed.** Nationwide® will issue a Form 1099-R by January 31 of the year following the conversion to reflect this taxable event. Consult with your tax advisor to determine how a conversion may impact your income tax situation.

Example with 22% tax bracket

Beginning account balance	In-plan Roth conversion amount	Ending account balance	Taxes owed
$150,000 (before tax)	$50,000 (reported as taxable income on Form 1099-R)	$100,000 (before tax); $50,000 (in-plan Roth)	$11,000 (owed on the converted amount)

This example applies to 457(b), 401(k) and 403(b) retirement accounts.

Who is eligible for an in-plan Roth conversion?

Participants, spousal beneficiaries and spousal alternate payees are eligible.

What is and is not eligible for an in-plan Roth conversion?

Pretax account assets, not including outstanding loans and balances in the PCRA through Schwab, are eligible for an in-plan Roth conversion.

Non-eligible distributions include required minimum distributions, hardship withdrawals, unforeseeable emergency withdrawals, distributions over 10 years or more, and corrective distributions.

How are in-plan Roth conversions shown in my account?

The amount designated as an in-plan Roth conversion is held in a separate subaccount within your Plan account, as required by law. Although separately accounted for, it will be included in your quarterly statement as an in-plan Roth rollover and in all the summaries and totals.

Are there any additional fees for an in-plan Roth conversion?

There are no additional fees for the in-plan Roth conversion transaction or for the administration of the in-plan Roth conversion account.

How much can I convert?

You can request to convert all or a portion of your pretax account(s) to Roth. Your investment allocations remain the same when an amount is converted. Once the conversion is processed, existing balances can be exchanged among available Plan investment options.

What is a qualified distribution?

A qualified distribution must meet 2 requirements:

- It takes place 5 years or more after January 1 of the calendar year in which the first Roth contribution or in-plan Roth conversion was made
- You have attained age 59½, become disabled or passed away

A Roth contribution, Roth rollover or in-plan Roth conversion must have been made at least 5 tax-years ago. Rollovers from other plans that offer a Roth feature can count toward the 5-year requirement in your Roth account. The period starts at the beginning of the year the first contribution, Roth rollover or in-plan Roth conversion was made and is met on the fifth anniversary of that date.

If the distribution is made under **both** of these conditions, it is qualified and therefore tax free.

If a distribution is not qualified, how is it taxed?

The portion of a distribution attributed to an in-plan Roth conversion is not subject to income tax because it was already taxed when it was converted. However, the earnings portion of the distribution will be taxed as ordinary income if the distribution is not a qualified distribution as addressed previously. In addition, a recapture tax discussed below may apply to pretax rollover distributions.

What is the recapture tax?

If the source of funds used for an in-plan Roth conversion is from a pretax rollover from another retirement plan that was not a Section 457(b) plan or a pretax IRA, a 10% recapture tax may apply — if the distribution(s) are made from the in-plan Roth rollover account before age 59½, unless the distribution is made 5 years or more after January 1 of the calendar year of the in-plan Roth conversion. This tax may apply even if the distribution would be a qualified distribution. This tax will not apply if the distribution is made after a separation from service after age 55; on account of death or disability; or for public safety employees who retire at age 50 or older. If more than one conversion is done in different tax years, each conversion will have its own 5-year requirement. Contact your Retirement Specialist for exceptions.

Who is the beneficiary of my in-plan Roth rollover account?

Your beneficiary designation on file also applies to the in-plan Roth rollover account(s). Separate designations are not allowed under the Plan. Distributions to beneficiaries retain the same income tax treatment as if you had received the distribution. The 5-year holding requirement applies for a distribution to be considered qualified even in the case of death. However, the 10% recapture tax will not apply because death is an exception to this requirement.

Can I roll over my in-plan Roth rollover account to another plan?

If a distribution qualifies as an eligible rollover distribution, you may be able to roll over the Roth account and in-plan Roth rollover account into another employer plan that offers a Roth program, or into a Roth IRA.

Comparison of pretax vs. in-plan Roth conversion accounts

The primary advantage of the in-plan Roth conversion is the potential for tax-free distributions. Even in retirement, income taxes can be significant because pensions, Social Security benefits and other types of income are likely to be subject to federal and potentially state income taxation. In some cases, it may make sense to pay taxes on a lump sum in a single year or over multiple years to avoid taxes on a series of future distributions.

The primary disadvantage of a Roth conversion is that it is subject to taxation on the amount converted in the year of conversion.

Contact your Retirement Specialist with any questions.

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