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Torrillo & Associates

Benefit Plan Audit Specialists

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IRS Issues Rollover Guidance for Roth Accounts

The Internal Revenue Service has issued guidance for employers whose 401(k) Plans offer Roth accounts for the rules governing rollovers by participants younger than retirement age.



The rules for the conversions, which were first allowed last year, were annotated by Towers Watson, which noted that more

than half of the 822 employers (in a company data base containing more than 900 companies) that sponsor savings plans also offer a Roth option.

The key part of the IRS guidelines explains that any rollover made before a participant reaches age 59½ must be done directly from the investment account to the IRA. Because distribution of funds is not allowed before that age, the 60-day rule that applies to older account holders does not apply.

The IRS is allowing plan sponsors extra time to amend their plans to allow such rollovers. Usually such amendments must be made by the end of the calendar year in which the government first allowed the change.

This time, sponsors have until the last day of 2014. Plan sponsors also can use the extended deadline to allow participants to elect to put salary deferrals into their Roth.

Plan sponsors also were advised that:

- Plans may restrict the types of contributions and balances eligible for in-plan Roth rollovers, such as limiting rollovers to balances that are otherwise distributable. This would avoid the burden of tracking distribution restrictions for some or all of the Roth balances.
- Plan sponsors may eliminate in-plan rollovers at any time, although the timing must not discriminate in favor of highly compensated employees.
- Favorable tax treatment applies only to Roth distributions made after five years from the date the Roth account was established. When the first contribution made to an employee's Roth account is an in-plan rollover, the five-year clock applies and begins on the first day of the first taxable year of the rollover.



Source: [Dan Berman, IRS Issues Rollover Guidance, February 21,](#)



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Who We Are

Torrillo & Associates, LLC specializes in employee benefit plan audits including 401k audits, 403b audits, pension plan audits, and other retirement plan audits. We are licensed in 10 states including Pennsylvania, New Jersey, Delaware, New York and Florida. We are also able to practice in additional states that have passed firm mobility.

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