SANDBERG PHOENIX

EMPLOYEE BENEFITS & EXECUTIVE COMPENSATION BLOG

Why Add a Roth Account to an Employer's 401(k)?

AUTHOR: MICHAEL CONGER

Reason #1: The contribution limits are a lot higher for a Roth 401(k) than for Roth IRA.

- $6,000 is the 2022 limit for a Roth IRA, plus a $1,000 catch-up contribution for individuals who are age 50 or older.
  - For 2023, the new limit is $6,500. The catch-up contribution limit remains $1,000.
- Roth 401(k) 2022 limits: $20,500, plus catch-up of $6,500
  - For 2023, the new limit is $22,500, plus catch-up of $7,500 = $30,000.

Reason #2: A Roth 401(k) has no phase-out for participants who earn too much, according to the Tax Code.

- Contributions to a Roth IRA are phased out for taxpayers depending on filing status: married individuals who have adjusted gross income (AGI) that exceeds $204,000. For single taxpayers, the phase out begins at $129,000. A married or single taxpayer may not make any Roth IRA contribution if AGI exceeds $214,000 or $144,000, respectively.
  - For 2023, the AGI phase-out threshold for married taxpayers is increased to $218,000, and for single taxpayers it is increased to $129,000.
  - In 2023, Roth IRA contributions are not permitted by married taxpayers with AGI exceeding $228,000 and for single taxpayers with AGI exceeding $138,000.
- A Roth 401(k) has no AGI requirement for Roth contributions. Participants may make Roth 401(k) contributions regardless of income. General rule: at the minimum, a participant must receive compensation from the employer equal to the amount of the Roth 401(k) contribution.

Reason #3: An employer makes matching contributions to Roth 401(k) accounts in the same amount as it makes matching contributions for elective deferral contributions.