



## THE ANIMATION GUILD

# CONVERTING SAVINGS TO ROTH MONEY

The Animation Guild 401(k) Plan has a feature that allows you to convert all or a portion of your pre-tax savings to Roth money within your plan. It's called a Roth in-plan conversion.

### The basics of a Roth conversion

As you may know, Roth money, including any earnings, can be withdrawn tax-free if you are age 59½ or older and the Roth account has been established for at least five years.\* Tax-free withdrawals could be a significant benefit, especially if you expect to be in either the same or a higher income tax bracket at the time of withdrawal than you are at the time of the conversion to Roth. However, any potential future tax benefit must be weighed against the cost of conversion today.

### Remember: In-plan Roth and Roth IRA are different

Roth 401(k) contributions (what you'd be making if you choose to do a Roth in-plan conversion) are made within a company-sponsored plan. In contrast, Roth IRA contributions are made to an individual account outside of a 401(k) plan. The good news is that you may be able to do both!

But there are important differences, including:

- You cannot undo (recharacterize) a Roth in-plan conversion. Even if the value of your Roth account falls after the conversion, a Roth in-plan conversion cannot be undone. By contrast, a Roth IRA conversion could be recharacterized.
- You are required to take required minimum distributions (RMDs) from Roth assets in your plan after age 70½, but not from a Roth IRA. This could be an important difference if you wish to leave Roth assets to your heirs. While you could avoid RMDs from your plan Roth money by rolling it over to a Roth IRA before age 70½, you may then have to wait five years to take tax-free withdrawals of your Roth IRA earnings.



### So, what are the costs of a conversion?

- The conversion amount would be reported as taxable income. You should consider federal, state, and local income taxes that would apply. The conversion amount might raise your taxable income significantly enough to push you into a higher federal income tax bracket or cause other adverse tax consequences.
- You may need money available outside your plan to cover taxes. If you don't have access to your plan savings (from a distribution such as termination of employment, for example, or a withdrawal of your plan savings), you will have to pay any taxes due with money available outside of your 401(k) plan. If you are planning to pay the taxes with money from your plan account, you will owe regular income taxes and, if you are younger than age 59½, an additional 10% federal penalty tax on the money you withdraw.
- You'll need five years before withdrawing your Roth money. In general, converted amounts withdrawn within five years of the conversion are subject to a 10% federal penalty tax.

### Is converting to Roth right for you?

Converting to Roth is not right for everyone, as it depends greatly on your circumstances, including your current and estimated future tax rates. We recommend that you speak with a tax advisor before taking any action.

To learn more about Roth in-plan conversions, visit [vanguard.com/inplanconversion](http://vanguard.com/inplanconversion).

#### Get started today

If you decide to undertake a Roth in-plan conversion, you can complete the transaction by calling a Vanguard Participant Services associate at **800-523-1188** Monday through Friday from 5:30 a.m. to 6 p.m., Pacific time.

You can also perform a Roth in-plan conversion online by logging onto your account at [vanguard.com/retirementplans](http://vanguard.com/retirementplans) and clicking **Manage my money**.



### Connect with Vanguard®

[vanguard.com/retirementplans](http://vanguard.com/retirementplans) > 800-523-1188

*All investing is subject to risk, including the possible loss of the money you invest.*

Tax implications: You will be responsible for paying any federal, state, local, or foreign taxes on a distribution or withdrawal from pre-tax accounts. A distribution or withdrawal of Roth 401(k) earnings is usually also taxable unless the initial Roth contribution was made more than five years ago and you are at least age 59½. Early withdrawals may be subject to a 10% federal penalty tax. To the extent required by law, Vanguard will make the appropriate withholding for tax purposes. In most cases, converting to a Roth account is a taxable event. If you convert, you may be subject to federal, state, and local taxes on all or part of the converted amount. Consult a tax advisor before converting.



#### Participant Education

P.O. Box 2900  
Valley Forge, PA 19482-2900

© 2016 The Vanguard Group, Inc.  
All rights reserved.

BBBKXSQ 052016