PCA Retirement & Benefits

How to Obtain an In-Plan Roth Conversion Form

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PCA Retirement & Benefits (RBI) has added an in-plan Roth conversion option to the PCA Retirement Plan, a 403(b) plan. Participants can now convert the following: 1) pre-tax contributions and earnings, and 2) regular after-tax earnings to Roth after-tax savings. Traditional pre-tax contributions and pre-tax and regular after-tax earnings grow tax-free within the PCA Retirement Plan and are taxed when distributed in retirement. A Roth conversion refers to taking all or part of your contributions and earnings and converting it into Roth after-tax savings. If you convert a portion of your account to a Roth after-tax basis, you'll owe taxes on those dollars now, but enjoy tax-free withdrawals later. Since the taxes on your Roth balance will have already been paid, any Roth dollars remaining in your account will pass tax free to your heirs.

But the current year tax consequences associated with an in-plan Roth conversion are significant. Listed below are three brief summaries of tax rules that apply to in-plan Roth conversions.

- The amount you convert will be included in your gross income in the year of the conversion. Any tax that you might owe will be based on your marginal ordinary income tax rate. How much you will owe depends upon your specific income tax situation.
- Because taxes are not withheld on an in-plan Roth conversion, any tax liability from the conversion must be paid from assets outside the PCA Retirement Plan. Depending on your tax situation, you may be subject to tax penalties and interest if not enough taxes are paid throughout the year. For this reason, you may want to increase your income tax withholding, or make an estimated taxpayment in the quarter in which the in-plan Roth conversion is completed.
- The 10% additional tax on early distributions will not apply to an in-plan Roth conversion (unless you take the amount rolled over out of the designated Roth account within the 5-year period that begins on January 1 of the year of the rollover).

Deciding whether to convert a portion of your balance hinges on your 1) marginal tax rate now versus your effective tax rate later, 2) the tax bill you'll have to pay to convert, and 3) estate planning needs. Since the decision is irrevocable and tax consequences may be significant, we believe it would be wise to speak with a Financial Planning Advisor at RBI and a tax professional to better understand your tax consequences before implementing this strategy.

Please call us at 678-825-1198 and request an appointment with a Financial Planning Advisor. They can provide you with a copy of the in-plan Roth Conversion Form and walk you through it during your scheduled call.

It is important to note, ordained Ministers already have very favorable tax treatment through the Minister's Housing Allowance within the PCA Retirement Plan. Ministers who convert to a Roth basis may be paying taxes today that they would not have owed later in retirement.