In-Plan Conversion FAQ

What is an in-plan Roth conversion?
An in-plan Roth conversion allows you to convert your vested Pre-Tax 401(k) and After-Tax contributions to a Roth 401(k). Once your contributions are converted to a Roth 401(k), your earnings will grow tax-free instead of tax-deferred. This may allow for more years of tax-free compounded growth on your savings.

Are there any restrictions on the amounts that may be converted?
Yes. You may convert whatever amount you'd like, however, you may only convert amounts that are 100% vested. For more information on vesting, please see the 401(k) Summary Plan Description.

How are in-plan conversions taxed?
In general, you must report the amounts converted to a Roth account as taxable gross income for the year of the conversion. You will be responsible for paying the tax on the gross income of any untaxed contributions and/or growth during the tax year in which the conversion took place. However, the taxable amount is not subject to the 10% penalty for early withdrawal. Additionally, the conversion is not subject to the mandatory 20% withholding rules.

How is an in-plan Roth conversion different from a Roth conversion to a Roth IRA?
Unlike a conversion made to a Roth IRA, a participant may not re-characterize any amount of an in-plan Roth rollover. A re-characterization allows you to "undo" or "reverse" a rollover or conversion to a Roth IRA before October 15 of the tax year following the conversion year. If you choose to make the conversion with your 401k you will be responsible for all taxes in the tax year and will not have the ability to "undo" your decision.

What are the implications of NOT being able to re-characterize the rollover?
The taxable amount of your conversion is based on the account value at the time of the conversion. If your Roth account's value is substantially less than the amount you converted months prior, you will owe taxes on money you no longer have. Such losses are a key reason some choose to re-characterize a Roth, however this is not an option with a 401k conversion.

For example, if you choose to convert $50,000 from a pre-tax 401(k) to a Roth 401(k), which results in a $10,000 tax bill and then the market then drops 10% from the time you initiated the conversion, you will be responsible for paying taxes on the full $50,000, not the lower account balance at the end of the year.

How do I initiate the conversion?
To initiate the in-plan Roth conversion, you can either visit https://workplace.schwab.com/ and turn this feature on directly in your "Manage Account" tab, or contact Charles Schwab directly at (800) 724-7526 to have them help you set it up.

Pro Tip: Turn on the automatic in-plan Roth conversion feature so all of your after-tax contributions get converted instantly to help reduce your tax liability!

Important Note: *Because an in-plan Roth conversion will likely have significant tax implications for the participant and may necessitate estimated tax payments and/or increased income tax withholding, participants should consult with qualified tax counsel prior to initiating a Roth conversion.*