Roth contributions

Understanding your options

Frequently asked questions

What are Roth contributions?

Roth contributions are a type of elective deferral you can make to a retirement plan such as a 401(k), 403(b), or profit-sharing plan on an after-tax basis if allowed by your employer's plan.

What effect will Roth contributions have on my take-home pay?

Pretax contributions reduce your current taxable income because they're deducted from your pay before taxes are withheld. Roth contributions don't reduce your current taxable income, so these contributions will lower your take-home pay when compared to the same amount of pretax contributions. When you log in to your account at **principal.com**, select **Manage Contributions** under the **Contributions** tab to see how different deferral rates could impact your take-home pay.

How are Roth contributions different from traditional pretax contributions?

With pretax contributions, you pay taxes on the money and any earnings when you withdraw it, generally at retirement—not when the contribution is taken from your paycheck. With Roth contributions, you pay taxes on the money when you contribute it—not when you withdraw it, as long as you meet the following criteria at the time of withdrawal:

- You're at least age 59½
- The money has been in your account for at least five years

When meeting this criteria, the earnings on Roth contributions are not taxable upon withdrawal.

Can I make both pretax and Roth contributions to a plan?

You can contribute pretax or Roth contributions, or a combination of the two, up to the IRS annual contribution limits[1] or the plan limit, whichever is the lower amount. To review your options, go to **principal.com/contributions**. Then when you're ready, choose which contribution type(s) you want to make and save your changes.

As of Jan. 1, 2026, if you're age 50 and older, making catch-up contributions, and earned more than $150,000 in FICA wages in the prior year, catch-up contributions must be made as Roth.

Anyone below the income limit can choose between pretax and Roth contributions as the plan allows.

If I'm making Roth contributions, can I contribute beyond the IRS limit?

No, the combined amount contributed from pretax and Roth contributions can't exceed the annual IRS limits.[1]

Can I change my mind and have my Roth contributions treated like pretax contributions at a later date?

You can stop making Roth contributions at any time, but any amounts already contributed can't be converted to pretax contributions.

Can I make catch-up contributions as designated Roth contributions?

As of Jan. 1, 2026, if your FICA wages in the prior year were $150,000 or less, you can make additional contributions, called "catch-up" contributions, as either pretax contributions, Roth contributions, or a combination of both.

As of Jan. 1, 2026, if you earned more than $150,000 in FICA wages in the prior year, catch-up contributions must be made as Roth.

Can I make separate investment elections for my pretax and Roth contributions?

No. Your investment elections will apply to both contribution types. You can't make separate investment elections for each.

Can I roll over Roth amounts from another employer's plan into the plan?

Yes, you can roll over Roth funds from a previous employer's 401(k), 403(b) or governmental 457(b) plan through a direct rollover if your employer's plan allows. You cannot roll in Roth IRA money into your employer's plan per IRA rules.

What is a qualified distribution from a Roth account?

In order for the distribution of any investment earnings in your Roth account to be tax-free, it must be qualified. A qualified distribution is generally a distribution that's made after your Roth account has been open for at least five consecutive years and is:

- Made on or after the date you turn 59½,
- Made after your death, or
- Made because you've become disabled (as defined in the plan's Summary Plan Description).

What happens if I take a distribution before my account has been open for five years?

If you or your beneficiaries receive a distribution of Roth contributions from your account before the end of the five consecutive calendar years, it's considered a nonqualified distribution. The earnings portion of the nonqualified distribution will be subject to tax.

If I make designated Roth contributions from after-tax income, can I make tax-free withdrawals from my Roth account at any time?

No, the same restrictions that apply to pretax contributions apply to Roth contributions. To be considered a qualified distribution from the plan, the distribution must be made after five consecutive calendar years, you have attained age 59½, have become disabled, or have died.

Pretax vs. Roth contributions at a glance

	Pretax contributions	Roth contributions
Contributions	Contributions and earnings are taxed when you withdraw the money, generally at retirement.	Taxed when you contribute the money.
Qualified distributions (taken after age 59½)	Both the contributions and earnings are taxable when distributed.	Contributions and earnings are not taxable. A qualified distribution is one taken after your Roth account has been open for at least five consecutive years and you've reached age 59½, become disabled (as defined by the plan's Summary Plan Description), or the distribution is made after your death.
Early distributions (before age 59½)[2]	Subject to tax. May be subject to a 10% early distribution penalty.	Contributions are tax-free, but any earnings are taxable and may be subject to a 10% early distribution penalty (will be pro-rata from contributions and earnings).
10% early distribution penalty	The entire distribution is subject to the penalty, unless: • You were at least 55 years old when you left your employer. • You were at least 59½ years old when distributed. • The distribution is in the form of substantially equal payments over your life expectancy. • The distribution is for medical expenses.[3] • You pass away, become disabled, or a QDRO is in place.	Earnings are subject to the penalty unless: • You were at least 59½ years old when distributed. • The distribution is in the form of substantially equal payments over your life expectancy. • The distribution is for medical expenses.[3] • You pass away, become disabled, or a QDRO is in place.
Rollovers	You may roll over pretax contributions to either an IRA or another qualified retirement plan.	You may roll over Roth contributions to either a Roth IRA or another qualified retirement plan that allows Roth contributions (see five-year holding period below).
Enrollment	You determine what percentage of your eligible pay you'd like to defer. You can contribute pretax or Roth contributions, or a combination of the two, up to the IRS annual contribution limits or the plan limit, whichever is the lower amount. You determine which percentage of your eligible pay you'd like to defer.	
5-year holding period	Doesn't apply.	Starts the first day of the year in which you make your first Roth contribution. For rollovers: • If you're making a direct rollover of all Roth funds and related earnings to a retirement plan that accepts Roth contribution, the holding period continues. • If you're rolling funds over to a Roth IRA, the holding period does not continue. Instead, a different Roth IRA holding period applies.
Matching contributions	All matching contributions are made as pretax contributions and are taxed when you take money out of the plan, generally at retirement.	

Want to explore your options?

Log in to your account through the **Principal® app** or **principal.com/contributions** to review your options and start making Roth contributions if you think they're right for you.

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[1] IRS contribution limits may vary from year to year. Visit IRS.gov for current limits.

[2] Additional exceptions may apply.

[3] Amount of unreimbursed medical expenses (>10% AGI for 2021, >7.5% AGI; for 2017 - 2020).

The legal plan document governs the employer's plan. If any feature discrepancies, the legal plan document will govern.

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