Participants in the Farm Credit Foundations Defined Contribution / 401(k) Plan (the “Plan”) will be able to convert any vested (non-Roth) portion of their Plan account into a designated Roth account within the Plan. This “Roth 401(k) in-plan conversion” feature was authorized by recent federal legislation and regulations, and the Plan Sponsor Committee has amended the Plan to allow for this enhancement. Active and inactive participants are eligible to make a Roth in-plan conversion(s) excluding any participants subject to a pending Qualified Domestic Relations Order (QDRO) in the case of divorce.

As a result of this Plan amendment, any or all of the following portions of participant accounts in the Plan, as well as associated tax deferred earnings on these portions, are eligible for conversion in this order/hierarchy:

- Employee traditional after-tax (non-Roth) contributions;
- Non-Roth rollover contributions (i.e., non-Roth amounts rolled into a participant’s Plan account from another qualified plan);
- Employee pre-tax deferrals;
- Vested Employer matching contributions; and
- Vested Employer non-elective contributions

As described below, any tax-deferred funds in the participant’s Plan account that are converted as part of this Roth 401(k) in-plan conversion feature will be included in the participant’s gross income for the calendar year in which the conversion is made.

Roth 401(k) Tax Benefit

Converting part or all of the funds in a participant’s Plan account to Roth funds does not mean that those funds will automatically be free from taxation upon the distribution of such funds. Instead, the distribution of the funds must be a “qualified” distribution in order to avoid taxation. “Qualified” distributions from a participant’s Roth 401(k) account are excludable from gross income if the distribution is made only after both of the following have occurred: (1) the employee reaches age 59½, becomes disabled, or dies; and (2) the end of a five-taxable-year period after the participant first made a Roth contribution. The participant’s first Roth contribution can be any of the following:

- A Roth after-tax deferral in the Plan through payroll deduction;
- A 401(k) Roth in-plan conversion; or
- A Roth rollover into the Plan from another qualified plan.

So, if a participant makes a Roth in-plan conversion but had already been making Roth after-tax deferrals through payroll deduction, the five-taxable-year period that applies to the entire Roth portion of his/her Plan account (including the subsequent conversion) would be deemed to have started on January 1 of the year of his/her first Roth after-tax deferral through payroll deduction. If, on the other hand, the participant had not previously made any Roth after-tax deferrals through payroll deduction, the five-taxable-year period would be deemed to start on January 1 of the year of the conversion.
How to Make a Roth In-Plan Conversion

Participants can request the election form to make the Roth in-plan conversion from the Request Forms menu item in the Manage My Account drop down menu from their 401(k) account Home Page at MyLife.JHRPS.com. The amount of any Roth in-plan conversion(s) will display on participant accounts on MyLife.JHRPS.com with the label, “IPRC” followed by the existing portion name, for example IPRC Aftertax, IPRC Rollover, IPRC Pretax.

Up to two conversions can be made per year. The conversion is not considered a distribution from the plan and does not need spousal consent. Please note, though, that unlike a Roth IRA conversion, a Roth 401(k) in-plan conversion is irrevocable once made.

The amount of any Roth in-plan conversion(s) is not included in the annual IRS limit on combined employee pre-tax and Roth after-tax deferrals to the 401(k) Plan through payroll deduction. In 2018, the limit is $18,500; or $24,500 if the participant is at least age 50 anytime during 2018.

Participants can call John Hancock Retirement Plan Services, 1-800-294-3575, and speak to a Participant Service Center Representative with questions about how to make a Roth in-plan conversion.

Important Tax Considerations

The amount of a participant’s Roth 401(k) in-plan conversion will be included in the participant’s gross income during the calendar year in which the conversion is made except for any non-taxable basis, e.g., the amount of a participant’s traditional after-tax employee contributions. Any earnings on those traditional after-tax employee contributions would be taxable and thus would be included in gross income following the Roth in-plan conversion. Partial conversions of any traditional after-tax portion will include a pro-rata share of non-taxable employee contributions and tax-deferred earnings.

Because no tax withholding is required or permitted, a participant electing a Roth 401(k) in-plan conversion may need to make estimated tax payments or increase outside tax withholding to avoid an underpayment penalty. There also may be state and local tax implications that need to be taken into account for individual tax purposes. Although funds from the Plan account cannot be used directly to pay taxes related to the conversion, a participant can take another eligible distribution to acquire the money needed to pay the taxes. John Hancock’s Retirement Plan Services will issue a 1099-R to the participant after the year of conversion indicating the amount of taxable income.

Given the complexities associated with this decision and that each individual’s tax circumstances are different, it is important for a participant considering this new Plan feature to seek the advice of a tax professional.

Roth Only Withdrawals and Distributions

John Hancock recently made an administrative enhancement such that participants may now elect to receive all or a part of the Roth portion of their Plan account as an in-service withdrawal at age 59 ½ or as a distribution upon termination/retirement. Unless a participant specifies to receive the Roth portion first, it will be last in the hierarchy for partial withdrawals/distributions. As described above, “qualified” distributions from a participant’s Roth 401(k) account are excludable from gross income if the distribution is made only after both of the following have occurred: (1) the employee reaches age 59½, becomes disabled, or dies; and (2) the end of a five-taxable-year period after the participant first made a Roth contribution. Again, it is important for a participant considering this option to seek the advice of a tax professional.