# Making It Make Sense: The Roth 5-Year Rule

The Roth five-year rule states that a distribution from a Roth IRA or Roth 401(k) is tax and penalty free only if the account has been held for five years and a qualifying event has occurred. Qualifying events include reaching age 59½, becoming disabled, and dying. For Roth IRAs only, a withdrawal of up to $10,000 for a first-time home purchase also qualifies. You can withdraw contributions (but not earnings) from a Roth IRA at any time without tax consequences.

The five-year holding period starts on January 1 of the year of your first contribution. So if you contribute in October 2026, the clock starts January 1, 2026, and ends December 31, 2030. This may seem simple, but there are nuances that can confound even the most seasoned investor.

**1. One five-year clock applies to all your Roth IRAs.** Once your first Roth IRA starts the clock, any future Roth IRAs share the same end date.

**2. A Roth 401(k) clock does not transfer to a Roth IRA.** If you open your first Roth IRA by rolling over a Roth 401(k), a new five-year period begins, no matter how long you held the Roth 401(k). For this reason, it may be wise to open a Roth IRA as soon as possible, even if it's just with the minimum amount.

**3. Each Roth 401(k) has its own five-year clock, unless assets are rolled over directly.** For example, if you make Roth contributions to one employer's plan starting in 2027 and a new employer's plan starting in 2030, each account has its own five-year timeline. But if you directly roll the old Roth assets into the new Roth account, the original clock will generally carry over, allowing all assets to satisfy the rule sooner. (Note: Not all plans accept rollovers.)

**4. Roth conversions have a separate five-year rule.** Converting a traditional IRA to a Roth triggers ordinary income tax on any tax-deferred amounts. No 10% penalty applies at conversion, even if you're under 59½. However, if you withdraw converted assets within five years — and are not yet 59½ or qualified for another exception — the 10% penalty will likely apply.

If you cash out a Roth 401(k) instead of leaving it in a former employer's plan or rolling it into a Roth IRA or new plan, and the distribution is unqualified, it will be subject to ordinary income tax and the 10% early withdrawal penalty.

Although IRAs typically provide more investment choices than employer plans, your plan may offer certain investments that are not available in an IRA. Further, the cost structure for the investments offered in the plan may be more favorable than those offered in an IRA. Generally, plan assets have unlimited protection from creditors under federal law, while IRA assets are protected in bankruptcy proceedings only. State laws vary in the protection of IRA assets in lawsuits. Investors should consult a qualified tax professional regarding their specific situation.

*This content has been reviewed by FINRA.*

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