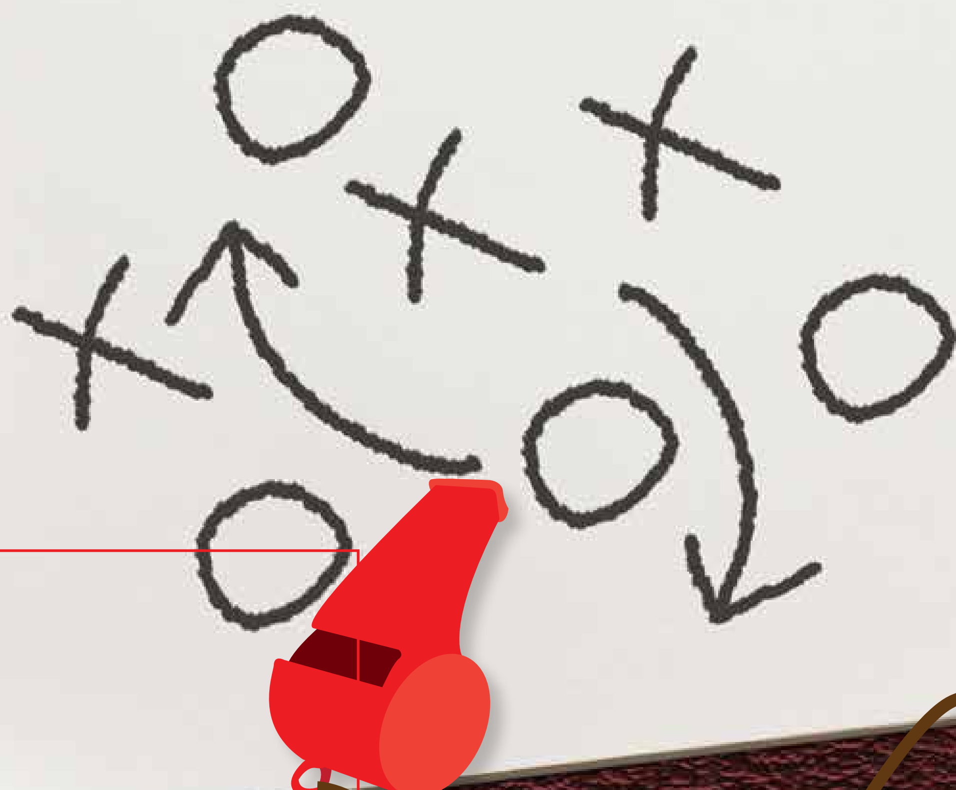
457 Playbook

Pre-tax and Roth contributions



ICMA-RC
Building Retirement Security

By enrolling in your retirement plan, you've won the coin toss!

Next, I'll guide you through some plays to help you continue to build retirement security. The rule book has changed and you can now make both pre-tax and Roth contributions. So you might need a new playbook. Or your current game plan might be fine as is.

So how are you going to respond? Put your helmet back on and get back out there!

Before you choose a new play, let's review the rules for Pre-Tax vs. Roth contributions. There's a key difference:

1. **Pre-tax contributions – you receive an up-front tax benefit but are subject to taxes later when you withdraw.**
2. **Roth contributions – you don't receive an up-front tax benefit but future withdrawals, including all earnings, may be tax-free.**

	CONTRIBUTION TYPE	
	Pre-Tax	Roth
Do contributions reduce taxable income?	Yes	No
Do earnings accumulate tax-deferred?	Yes	Yes
Are contributions taxed upon withdrawal?	Yes	No
Are earnings taxed upon withdrawal?	Yes	No, if distribution is qualified.
Does a 10% early withdrawal penalty apply?*	No	No
Do IRS Required Minimum Distribution rules apply?	Yes	Yes

Are contribution limits the same?	Yes. The 457 plan limits apply to the combination of pre-tax and Roth contributions.

*10% penalty tax never applies to withdrawals of original 457 plan contributions and associated earnings. But the penalty may apply to non-457 plan assets rolled into a 457 plan and subsequently withdrawn prior to age 59½.

Flag on the play!

Understand the rules of how to use Roth contributions to get tax-free withdrawals!

The rules for tax-free distributions of Roth assets:

- Distributions of Roth assets are qualified (tax-free) if
  - Five years have passed since January 1 of the year of the first Roth contribution (including rollovers)

    AND
  - You are at least 59½ (or disabled)

- Example: If you make your first Roth contribution in October of year 1, you will have met the "five year" requirement as of January 1 of year 6.

Support

To review your playbook, log into your account at www.icmarc.org, and set up your contributions: pre-tax, Roth, or a little bit of both!

Need help?

Go online to the Roth Analyzer at www.icmarc.org/rothanalyzer.

Frequently Asked Questions

Below are some common questions about using pre-tax and Roth contributions to meet your retirement goals. Take note of these before considering a change to your game plan.

Why should I consider making Roth contributions to my 457 plan?

In addition to the tax-free distributions, potential benefits include:

- Tax planning – Having both pre-tax and Roth assets available in retirement can be a valuable benefit, allowing you to choose the source of funds most advantageous to your situation at the time of distribution.
- Higher contribution limits than Roth IRAs.
- Unlike Roth IRAs, you can make Roth contributions regardless of your income.

How will I determine if pre-tax or Roth is right for me?

You should consider your current and future income tax brackets. Roth contributions may be most appropriate if you are expecting to be in a higher tax bracket in retirement, allowing you to pay taxes on the contributions now, at a lower tax rate, and receive tax-free distributions later.

But everyone's situation is different and you may find that a combination of pre-tax and Roth contributions makes the most sense.

Visit www.icmarc.org/rothanalyzer to help you evaluate. ICMA-RC recommends that you consider consulting a tax advisor before making a decision.

What do I need to know about withdrawals of 457 plan Roth assets?

Roth assets can be withdrawn whenever distributions are permitted under the plan (e.g., retirement, termination, emergency situations). Pre-tax assets will be distributed prior to Roth assets, unless otherwise elected by you.

Unlike Roth IRAs, the same RMD rules that apply to other assets in your 457 plan also apply to Roth assets. Distributions from the 457 plan must generally begin in the year you reach age 70½ or separate from service, whichever occurs later.

How else can I increase my Roth assets?

If you are eligible to withdraw assets from the plan, you may be able to convert your pre-tax assets to Roth assets through an in-plan rollover. You are subject to income taxes up front on the amount you convert. However, future distributions of Roth assets are tax-free if the requirements for a qualified distribution are met.

Who can I contact for additional information?

Please contact your ICMA-RC representative.

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