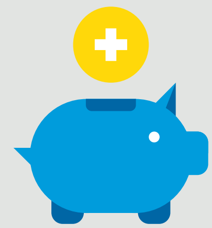
A Retirement Savings Opportunity Roth 457(b)

Putting money aside now to help provide an income when you retire is important. Your retirement savings plan at work offers a Roth 457(b), in addition to a traditional 457(b).



How is the Roth 457(b) different from traditional 457(b) contributions?

Your designated Roth 457(b) contributions are made with after-tax dollars and grow tax deferred. So when you are ready and eligible to take a distribution, the distribution will not be subject to taxes if it satisfies the qualified distribution requirements: (a) occurs after the five-tax-year holding period; and (b) satisfies one of the other requirements (e.g., be made on or after you attain age 59½). With a traditional 457(b) deferral, your contributions are made with pre-tax dollars and any earnings grow tax deferred. So when you are ready and eligible to take a distribution, your distributions will generally be subject to ordinary income taxes.

How much can you contribute?

Roth 457(b) contributions and traditional 457(b) deferrals are aggregated for purposes of determining the annual limits. For 2024, the limits are the lesser of 100% of the participant's includible compensation or:

Combined Traditional/Roth 457(b) Deferrals	Additional 457(b) Catch-up Deferrals (age 50 or older)	Special 457(b) Catch-up Deferrals (subject to plan provisions)
$23,000	$7,500	$46,000*

How are Roth 457(b) contributions accounted for in the plan?

Roth 457(b) contributions and their earnings are kept separately from regular 457(b) elective deferrals and their earnings. Additionally, individuals' Roth 457(b) contributions must be distinguished from traditional 457(b) deferrals.

When can money be withdrawn from a Roth 457(b)?

Just like a traditional 457(b) governmental plan, the assets in your Roth 457(b) governmental plans (other than separately accounted for amounts attributable to a rollover contribution, if any) cannot be distributed until you reach age 59½, have a severance from employment or an unforeseen emergency (as defined by the federal tax law). Once you are eligible to receive a distribution, the taxation of the assets received will depend on whether the distribution is a qualified distribution or a non-qualifying distribution. Qualified distributions from a designated Roth account occur (a) after you satisfy the five-tax-year holding period; and (b) if the distribution is made on or after you reach age 59½, on account of a disability or due to a death. You will receive qualified distributions income tax free. In contrast, a non-qualifying distribution of taxable earnings will be subject to ordinary income taxes in the taxable year in which the distribution occurs.

What are the advantages of contributing to a Roth 457(b) versus a Roth IRA?[1]

- You may contribute the maximum dollar amount that is permitted for that calendar year ($23,000 in 2024). This is a significantly higher limit than the maximum contribution allowed for traditional IRAs and Roth IRAs ($7,000 or, if age 50 or older, $8,000 in 2024).
- You generally may make Roth 457(b) contributions regardless of maximum income limits imposed for Roth IRAs. An individual whose income is within a certain range for 2024 ($146,000 and $161,000 for single individuals and $230,000 and $240,000 for married individuals who file a joint return) can only contribute a reduced amount to his/her Roth IRA. Single individuals with a modified adjusted gross income of $161,000 or more ($240,000 or more for married individuals who file a joint return) cannot make Roth IRA contributions.

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Am I able to rollover other 457(b) accounts if the plan accepts it?

Yes. Legislation allows (but does not require) governmental 457(b) plans that offer designated Roth accounts to permit participants to rollover non-Roth 457(b) amounts into a designated Roth account under the same governmental 457(b) plan (a so-called "in-plan Roth rollover"). The taxable portion of the in-plan Roth rollover will be subject to ordinary income tax in the year of the distribution or deemed distribution. While a distribution from a 457(b) plan generally is not subject to the 10% federal income tax penalty for early withdrawals, a taxable distribution from a governmental 457(b) plan may be subject to the 10% federal income tax penalty to the extent the distribution is attributable to a rollover contribution from another type of eligible retirement plan.[2]

How do you know if a Roth 457(b) is right for you?

This answer depends on several variables, including current and retirement marginal income tax brackets, how much you can afford to contribute, your current age and expected retirement age. In general, each may be more favorable in the following situations:

A traditional 457(b) would generally be the better option for individuals who expect their marginal tax rate to be lower in retirement as a result of lower incomes. A Roth 457(b) may be a better option for individuals who expect to accumulate higher earnings in their Roth account.

Roth 457(b)	Traditional 457(b)
Higher Retirement Income Tax Bracket	Lower Retirement Income Tax Bracket
Higher Expected Accumulated Earnings	Lower Expected Accumulated Earnings

How do I make Roth 457(b) contributions?

Getting started is easy. Select Roth on the enrollment form.

*The "special section 457 catch-up," is only allowed for one or more of a participant's last three tax years ending before he/she reaches "normal retirement age," and is limited to the lesser of: (1) twice the "applicable dollar amount" in effect for that tax year ($23,000 in 2024 or (2) the "underutilized limitation," i.e., the sum of: (a) the regular plan ceiling for the tax year, plus (b) the regular plan ceiling that has not been used under the regular plan ceiling or under this catch-up provision for "prior tax years."

1. There are, however, a number of differences between a designated Roth account and a Roth IRA, including (but not limited to) the fact that a designated Roth account is subject to the lifetime required minimum distribution ("RMD") rules while a Roth IRA is not (both are subject to the after-death RMD rules), the special Roth IRA ordering distribution rules do not apply to designated Roth accounts, there are differences in the qualified distribution requirements, and the Roth IRA recharacterization rules do not apply to a designated Roth account.
2. While the 10% federal income tax penalty does not apply to in-plan Roth rollovers, the 10% federal income tax penalty recapture ("recapture tax") may apply if an amount attributable to an in-plan Roth rollover is distributed before the end of the 5-tax-year period for that particular in-plan Roth rollover and none of the exceptions to the 10% federal income tax penalty apply. The recapture tax only applies to the portion of the in-plan Roth rollover amount that would have otherwise been subject to the 10% federal income tax penalty at the time of the in-plan Roth rollover. For a governmental 457(b) plan, a distribution from a designated Roth account that is attributable to an in-plan Roth rollover would only be subject to the recapture tax to the extent the in-plan Roth rollover amount was attributable to a prior rollover contribution from another type of eligible retirement plan and was subject to income tax at the time of the in-plan Roth rollover.

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Before individuals make any decision as to which type of employee contribution is best, individuals' traditional deferrals or designated Roth 457(b) contributions, review individuals' strategy with an independent tax advisor.

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