

# A Retirement Savings Opportunity

## Roth 403(b)

### Currently saving enough for retirement?

Putting money aside now to help provide an income at retirement is important. Your retirement savings plan at work offers a Roth 403(b), in addition to a traditional 403(b).



### How is the Roth 403(b) different from the traditional 403(b)?

With a Roth 403(b), the contribution amount is made with money you have already paid taxes on. The earnings on the contributions to a Roth 403(b) will generally not be subject to federal income tax if they remain in the plan for at least five years after you make your first Roth contribution. Also, the contributions and earnings are not distributed before you attain age 59½, die or become disabled.

In contrast, contributions to a traditional 403(b) are made with pre-tax dollars. Traditional 403(b) contributions and the earnings on those contributions will be taxed when you take the money out.

### How much can be contributed?

Roth 403(b) contributions and traditional 403(b) deferrals are combined for purposes of determining the annual limits. Although these limits are subject to inflation adjustments, the 2020 limits are:

Combined Traditional/Roth 403(b) Deferrals	Additional 403(b) Catch-up Deferrals (age 50 or older)	Total Contributions
\$19,500	\$6,500	\$26,000*

\* Employees who have completed at least 15 years of service with certain qualified employers may be able to contribute up to an additional \$3,000.

### How are Roth contributions accounted for in the plan?

Contributions to your Roth 403(b), along with any earnings, are recorded separately from traditional 403(b) contributions. The plan administrator will, and is required to, distinguish between your Roth 403(b) contributions and their investment results.

### Can a participant contribute to both a Roth 403(b) and a Roth IRA?

Making Roth 403(b) contributions does not necessarily affect your eligibility to contribute to a Roth IRA. This assumes that you are not precluded from contributing based on your adjusted gross income.

### What are the advantages of contributing to a Roth 403(b) versus a Roth IRA?

- You may contribute up to the general maximum dollar amount of 403(b) contributions that is permitted for that calendar year (\$19,500 in 2020, \$26,000 if you are age 50 or older before the end of 2020). This is a significantly higher limit than the general maximum contribution allowed (up to \$6,000 in 2020, or \$7,000 if you are age 50 or older before the end of 2020) for IRAs (including Roth IRAs).
- You generally may make Roth 403(b) contributions regardless of maximum income limits imposed for Roth IRAs. A Roth IRA is not available to individuals whose income exceeds certain levels.

### **When can money be withdrawn from a Roth 403(b)?**

Qualified distributions from the Roth account will be allowed when you reach age 59½, as long as it has been at least five years since the beginning of the tax year of the first Roth 403(b) contribution made to the account.

### **What happens if withdrawals from a Roth 403(b) are made prior to five years and age 59½?**

Generally, you cannot withdraw amounts from the Roth 403(b) before the earliest of leaving your employer, death, disability, hardship or reaching age 59½. Where such distributions are permitted, any related investment earnings are taxable and may be subject to a federal income tax penalty.

### **Are rollovers permitted from a Roth 403(b) to another Roth account if the other plan accepts it?**

You may generally rollover a Roth 403(b) to a Roth IRA or make a direct rollover to a Roth account in an employer retirement plan that accepts such rollovers.

### **Must participants take a required minimum distribution (RMD) from the Roth 403(b)?**

Roth 403(b) accounts are subject to RMD rules. RMDs must generally begin April 1<sup>st</sup> following the year when you reach age 72. Your beneficiaries must also comply with Roth RMD rules.

### **Are participants able to delay taking an RMD from the Roth contributions, including earnings at age 72?**

You can delay the RMD rules by rolling over your Roth 403(b) account to a Roth IRA prior to age 72. The Roth IRA can be passed on to your heirs while maintaining their income tax-free status, but they must comply with RMD rules.

### **How do I know if the Roth 403(b) is right for me?**

This depends on several things, such as your current and retirement tax brackets, how much you can afford to contribute, expected earnings, current age and expected retirement age.

While no one can predict whether tax rates, either overall or individual, will rise or fall over time, one thing is clear: Saving for your retirement is critical to the income you will have when you are no longer working. Contributing to your employer's retirement savings plan is an excellent opportunity that may help you reach this very important goal.

Before making any decisions about a traditional or Roth 403(b), you should meet with a tax advisor to discuss your personal circumstances and whether or not one, or a combination of each, may be to your advantage.

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