

# Roth supplemental savings option in the GVSU 403(b) and 457(b) Retirement Plans.

## What is the Roth contribution option?

The Roth contribution option will allow you to make after-tax supplemental contributions to the GVSU 403(b) and 457(b) Retirement Plans while taking those contributions and associated earnings completely tax-free at retirement as long as the withdrawal is a qualified one. A qualified withdrawal in this case, is one that is taken five tax years after the year of your first Roth contribution and after you have attained age 59½, become disabled or deceased.

## How does a Roth contribution option work?

You elect a percentage (or dollar amount) of your salary that you wish to designate as Roth contributions, just like you would for your traditional pre-tax contribution. For example, if your total annual eligible compensation is \$40,000 per year and you elect to designate 5% of your salary as a Roth 403(b) or 457(b) contribution, then \$2,000 per year would go into your Roth 403(b) account.

Remember, unlike your traditional pre-tax contribution, your designated Roth contribution will be included in your current gross income for tax purposes. Your take home pay may be less than it would be if you made a traditional pre-tax contribution.

With a Roth contribution, you pay the taxes now on the contributions you elect to defer but, upon withdrawal, Roth contributions and associated earnings are tax-free, if you meet certain criteria.

For example: Sally's income is \$40,000 per year and she has elected to designate 6% of her salary to Roth contributions and 6% of her salary to traditional pre-tax contributions on a monthly basis.

|  | *Roth | *Traditional |
|--|-------|--------------|
| Sally's monthly contribution into each account | \$200 | \$200        |
| Sally's reduction in take home pay             | \$200 | \$150        |

*\*This hypothetical example is based solely on an assumed federal income tax rate of 25%. No other payroll deductions are taken into account. Your own results will be based on your individual tax situation.*

## How much can I contribute to the Roth?

- Roth contributions are subject to the existing 402(g) limits. If you are under age 50, the IRS contribution limit for Roth and traditional pre-tax contributions combined is \$19,000 for 2019 for the 403(b) Retirement Plan and an additional \$19,000 for the 457(b) Retirement Plan.
- If you are over age 50 and make catch-up contributions, the IRS contribution limit for both Roth and traditional pre-tax contributions combined is \$25,000 for 2019 for the 403(b) Retirement Plan and an additional \$25,000 for the 457(b) Retirement Plan. Please note, the amount of Roth and traditional pre-tax contributions you may contribute to your plan could also be subject to specific Plan Limits. If you have participated in a 403(b) plan for the same employer for 15 or more years, you may qualify for an additional \$3,000 "403(b) Lifetime Catch-up" contribution if you have under-contributed to your plan in the past.

## Would a Roth contribution option benefit me?

The potential benefits of a Roth contribution depend on your personal situation but are mainly focused around your existing tax rate and your anticipated tax rate at the time of retirement. If you are contributing to a Roth, you are giving up the tax break today for the tax break in the future.

Generally, a Roth contribution may be beneficial if you expect your tax rate in retirement will be higher than it had been during the years you contributed.

If you expect your tax rate will be lower in retirement, then a traditional 403(b) may be more beneficial to you than the Roth option.

### **Who will the Roth benefit most?**

- Those who expect to be in a higher tax bracket in retirement.
- Younger employees who have a longer retirement horizon and more time to accumulate tax-free earnings under a Roth feature.
- Highly compensated individuals who would like to have a pool of tax-free money to draw upon after retirement, and who are not eligible for Roth IRAs due to the income limitations.
- Those who may want to leave tax-free money to their heirs in the future.

### **Is a traditional pre-tax contribution still beneficial?**

Yes. For many participants a traditional pre-tax contribution still may be the most beneficial type of retirement savings plan. We do not know what the future holds regarding tax rates. Therefore, it is not possible to predict with certainty which type of savings will be most beneficial to a participant.

Remember, since Roth contributions are made after-tax, you may take home less money in your paycheck than you would if you contributed to a traditional pre-tax contribution.

### **Do I have to contribute to the Roth option?**

No. The plans allow you the option of whether to designate any contributions as traditional, Roth, or a combination of the two. Talk with a tax professional for more information on how to determine if Roth contributions are right for you.

### **Will Roth contributions be eligible for withdrawals?**

Permitted withdrawals are based on plan rules. However, there are some basic withdrawal types. They are as follows:

- Retirement/Termination – In the event of either retirement or termination, Roth contributions and associated earnings can be withdrawn tax free as long as it has been five tax years since your first Roth contribution and you are at least 59½.
- Death – Beneficiaries may be able to receive distributions tax-free if the participant started making Roth contributions more than five tax years prior to the distribution.
- Disability – In the event of disability, Roth contributions and associated earnings can be withdrawn tax free if it has been five tax years from your first Roth contribution.

**Note:** Rollovers are permitted only to another Roth account or a Roth Individual Retirement Account (IRA). Rollovers from a Roth IRA to a Roth 403(b) or 457(b) plan are not allowed.

### **Can I designate my GVSU base contribution to my Roth 403(b)?**

No. The Roth contribution option is only available for the supplemental contribution that you elect to make from your pay.

### **How do I get started?**

Adding the Roth contributions to your Grand Valley State University 403(b) or 457(b) Retirement Plan is easy. Go to [http://www.gvsu.edu/healthwellness/ehro\\_anytime\\_director.htm](http://www.gvsu.edu/healthwellness/ehro_anytime_director.htm) and select "Update Retirement Contributions". If you are enrolling for the first time, you will also need to complete the online enrollment process at with your selected investment provider.

*The information provided herein is general in nature and should not be construed as legal or tax advice. You should seek the advice of a tax or financial advisor to assist you with any questions you may have or with specific situations that may apply.*