

# The Roth 403(b) Option:

## Is it Right for You?

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Your 403(b) plan accepts Roth 403(b) contributions, giving you the flexibility to designate all or a portion of your 403(b) elective deferrals as Roth contributions.

Roth 403(b) after-tax contributions and traditional before-tax 403(b) deferrals each have advantages. You should thoroughly review the following information and consider consulting a financial advisor prior to electing your contribution percentages.

### How are Roth contributions different from traditional 403(b) contributions?

Roth contributions are made with after-tax dollars.

Traditional 403(b) contributions are made on a before-tax basis and you pay taxes only when you take a distribution.

### Do I pay taxes when I take a distribution from my Roth 403(b) account?

If you withdraw your Roth contributions and any earnings after you've reached age 59½ or severed employment due to disability or death (upon which your beneficiaries will take a withdrawal) and have held the account for at least five years, the distribution is generally income-tax and penalty-free.

If a distribution is made from your Roth 403(b) account before you reach age 59½ and it is not due to death or disability, or reaching the five-year period beginning with your first Roth contribution, you will pay income taxes plus a 10% penalty tax on any earnings that are distributed. Otherwise, there is generally no income or penalty tax due on the Roth contributions distributed from the plan because they were made with after-tax dollars.

### Do I pay taxes when I take a distribution from my traditional 403(B) account?

Withdrawals of contributions and any earnings from your traditional 403(b) are subject to income taxes. If the withdrawal is made prior to age 59½, a 10% penalty tax may be due on the amount of the withdrawal, in addition to ordinary income tax.

### How much can I contribute?

The maximum combined contribution limit in 2016 is \$18,000. If you are age 50 or older, you can make additional "catch-up" contributions of \$6,000 if permitted by your plan.

### How does the Roth 403(b) differ from a Roth IRA?

- **Contribution Limits** - Roth IRA contributions are limited to \$5,500 in 2016 (or \$6,500 if you are age 50 or older) versus \$18,000 for the Roth 403(b) (or \$24,000 if you are age 50 or older). So, you can contribute more on an after-tax basis to your Roth 403(b) than to a Roth IRA.
- **Eligibility** - If you're single and earn more than \$131,000 a year or are married with a joint income of more than \$194,000 in 2016, you aren't eligible to contribute to a Roth IRA in 2016. However, if you meet your plan's eligibility requirements, you can participate in the Roth 403(b) plan regardless of your income.<sup>1</sup>

### Can my employer make matching contributions?

Yes. Your employer can make matching contributions to your plan if you make Roth 403(b) contributions. However, any employer-matching contributions are before-tax contributions and are treated the same as traditional 403(b) matching contributions, which are subject to taxes when you take a distribution.

### Can I roll over my account if I change employers?

Should you leave your current employer, you still have the option of rolling over your Roth 403(b) account to a Roth IRA or a 401(k), 403(b), or governmental 457(b) plan that has a designated Roth account and that accepts Roth rollovers. You can roll over your traditional 403(b) account to a qualified 403(b), 401(a), 401(k) plan, a traditional IRA or a governmental 457(b) plan, among others, if the plan allows it.<sup>2</sup>

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## Can I leave my money in my Roth 403(b) indefinitely?

Once you reach age 70½, you are generally required to begin taking minimum distributions from either a Roth 403(b) or a before-tax 403(b) however you might not be required to take a minimum distribution. Refer to your plan provisions for more information.

AT A GLANCE	BEFORE-TAX 403(B)	ROTH AFTER-TAX 403(B)
Is my contribution taxable in the year I make it?	No	Yes
Is my contribution taxed when distributed?	Yes	No
Are any earnings on my contributions taxed when distributed?	Yes	No, provided the distribution occurs after age 59½, death or disability and no earlier than five years after your first Roth 403(b) contribution
If I change jobs, can I roll over my account? <sup>2</sup>	Yes, to a qualified 403(b), 401(a), 401(k) plan, a traditional IRA or a governmental 457(b) plan, among others, if the plan allows it.	Yes, to a Roth IRA or a 401(k), 403(b), or governmental 457(b) plan that has a designated Roth account and that accepts Roth rollovers
What is the maximum amount I can contribute?	Combined limit for contributions in 2016: \$18,000 or \$24,000, including the additional \$6,000 Age 50+ Catch-Up contribution	
If I experience a financial hardship, can I make a withdrawal?	Yes, if your plan allows hardship withdrawals	
Do I have to take a minimum distribution at age 70½?	Once you reach age 70½, you are generally required to begin taking minimum distributions from either a Roth 403(b) or a before-tax 403(b) however you might not be required to take a minimum distribution. Refer to your plan provisions for more information.	

### Making the best choice for you

You will have to determine whether contributing to your plan on an after-tax Roth basis or a traditional before-tax basis makes more sense for your situation. The Roth 403(b) option essentially “locks in” today’s tax rates on all contributions. For some people—especially those who expect to be in a higher tax bracket when they retire—the Roth 403(b) option may make the most sense. If you’re one of those people, the Roth option allows you to pay taxes on your contributions when they are contributed (presumably at a lower tax rate than you would expect to pay at retirement).

If you expect to be in a lower tax bracket when you retire, you might want to consider contributing to your 403(b) on a before-tax basis. You won’t pay taxes on your contributions or any earnings on your contributions until you take a distribution, which is usually at retirement (when many people expect their retirement earning power and tax burden to be lower than it is today).

### The bottom line: participate!

Regardless of which type of contributions you choose, the important thing is to contribute as much as you can today for your retirement tomorrow. If after you’ve done your research and consulted the experts you decide that Roth 403(b) contributions are right for you, you can make the appropriate changes to your account by completing a Salary Deferral Agreement form available from your company’s human resources department, or by visiting your plan’s website or calling the automated phone line.<sup>3</sup> If you are not currently enrolled in your plan, you can elect to make Roth 403(b) contributions by completing your plan’s enrollment form.

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1 Source: <http://www.irs.gov/Retirement-Plans/Amount-of-Roth-IRA-Contributions-That-You-Can-Make-For-2015>

2 You are encouraged to discuss rolling money from one account to another with your financial advisor/planner, considering any potential fees and/or limitation of investment options.

3 Access to the automated voice response system and/or the website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.