

# Ohio DC

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# ROTH

## CONTRIBUTIONS

Roth Option for 457(b): POTENTIAL TAX-FREE RETIREMENT INCOME



OHIO DEFERRED  
COMPENSATION

**You've probably heard of a Roth IRA** — an investment vehicle that lets you make contributions that are not tax deductible, but provide tax-free distributions in retirement, after certain conditions are met. Did you know there's also a Roth option for 457(b) deferred compensation plans?

Deciding whether to make Roth contributions will depend on your individual financial circumstances, such as your current income and anticipated income in retirement, and current and future tax rates. Unlike Roth IRAs, there are no income limits for Roth 457(b) options. Contribution limits are also higher for Roth 457(b) options compared to Roth IRAs. You can visit our online tool for more information, but you should also consult with a tax advisor to assist you in making a decision.

## **DOES MY EMPLOYER ALLOW ROTH CONTRIBUTIONS?**

Your employer must choose to offer the Roth 457 option for it to be available to you. Contact us if you have questions, or check with your employer to determine whether they offer the Roth option.

## **WHAT ARE ROTH CONTRIBUTIONS?**

Roth contributions are deducted from your pay on an after-tax basis, unlike regular pre-tax deferrals that reduce your gross taxable income. Roth contributions grow tax deferred, and when a withdrawal is qualified, it is not subject to federal or state income taxes. The availability of tax-free withdrawals is what makes the Roth option attractive.

## **WHAT IS A QUALIFIED WITHDRAWAL?**

Roth contributions and pre-tax deferrals are subject to the same withdrawal rules requiring a separation from service, unless you qualify for an unforeseeable emergency withdrawal. Unforeseeable emergency (UE) withdrawals are permitted from Roth accounts, but net earnings are subject to taxation and withholding if non-qualified.

If a Roth withdrawal is available, it must meet two requirements to be considered qualified. The first is that the withdrawal must be made after age 59½ or because of death or disability. The second is the initial Roth contribution must have been made to the Plan at least five tax-years before withdrawal. The Roth period starts at the beginning of the year the first Roth contribution is made and is met on the fifth anniversary of that date. For example, for a participant who made his first Roth contribution on July 25, 2015, his first Roth tax year would start on January 1, 2015, and the five-year requirement would be met on January 1, 2020.

If the Roth withdrawal is non-qualified, the portion attributed to the Roth contributions is not subject to income tax because it was already taxed when it was made. The growth (net earnings) portion of the withdrawal would be taxable. For example, if 25% of the Roth account value was due to growth, 25% of any withdrawal would be considered taxable.

Roth accounts are subject to required minimum distributions that follow the same rules as pre-tax accounts.

## **HOW DO ROTH CONTRIBUTIONS AND PRE-TAX DEFERRALS COMPARE?**

Paying taxes on your retirement savings is inevitable. With a Roth account, you pay taxes on your contributions now but your qualified withdrawals are tax free. Pre-tax deferred compensation contributions reduce your current tax bill, but those withdrawals are taxed when received.

The primary advantage of Roth contributions is the potentially tax-free withdrawals because pensions, Social Security and other types of income are likely to be subject to taxation.

Income tax credits and deductions, as well as some governmental benefits, may be reduced if taxable income is high. Having sources to draw upon that are not subject to income tax could be very helpful.

The primary disadvantage of Roth contributions is they don't reduce current income taxes. There are very few tax deductions available to most taxpayers, and many deductions, credits and exemptions may be reduced based on the level of taxable income. For some participants, current income-tax savings is an important part of making contributions affordable. Although pre-tax deferrals will result in taxable withdrawals in the future, planning can limit the impact of those taxes, and withdrawals are not required until you reach age 70½, allowing for extended tax deferral. Lowering your taxes when you are subject to higher rates, such as in your working years, and paying taxes at lower rates, typically during retirement, is usually considered good tax planning.

## **HOW ARE ROTH CONTRIBUTIONS SHOWN IN MY ACCOUNT?**

Roth contributions are held in a separate account from pre-tax deferrals, as required by law. Although separately recorded, they will be included in your quarterly statements and in all summaries and totals. There are no additional administrative fees related to the creation of a Roth account.

## HOW MUCH CAN I CONTRIBUTE?

Roth contributions, combined with pre-tax contributions, can be made up to the IRS annual limits. Participants choose how to allocate their contributions in dollars between pre-tax and Roth (after tax). For example, a participant could split a \$500 total biweekly contribution by putting \$300 in pre-tax and designating \$200 as Roth. Participants can change how they split their contributions at any time, but once a contribution is made, it cannot be reclassified.

	Traditional 457	Roth 457
<b>Taxation</b>	Before tax; reduces current income tax; taxes are deferred until distribution	After tax; pay current income tax now; qualified distributions are free from federal and state tax*
<b>2020 Annual Contribution Limits</b>	\$19,500 (total limit including Roth contributions)	\$19,500 (total limit including pre-tax contributions)
<b>2020 Annual Age 50-Plus Limit</b>	\$26,000 (total limit including Roth contributions)	\$26,000 (total limit including pre-tax contributions)
<b>Catch-up Annual Limit</b>	\$39,000 (total limit including Roth contributions)	\$39,000 (total limit including pre-tax contributions)
<b>Income Limits</b>	None	None
<b>Employer Match</b>	May be provided	Employers can match a Roth contribution <b>but</b> any employer contributions, such as the match or a profit sharing contribution, must be treated as a <b>pre-tax contribution</b> and allocated to a pre-tax account.
<b>Rollover</b>	May be rolled over to another pre-tax plan or to a traditional pre-tax IRA	May be rolled over to another Roth plan or Roth IRA
<b>Required Minimum Distributions</b>	Required (if terminated) The IRS requires terminated participants to begin withdrawing minimum distributions from their plan at age 70½; these withdrawals are known as required minimum distributions (RMDs).	Required (if terminated) <b>However</b> , before minimum distributions begin, the participant can roll over the entire balance to a Roth IRA, which does not require minimum distributions. The Roth IRA account holder can forgo taking distributions, allowing the Roth IRA to continue to accumulate tax free and ultimately be passed on to heirs free from federal and state taxes.

Source: IRS contribution limit increases for 2020, [irs.gov](https://www.irs.gov) (November 2019).

\* Contributions and earnings from a Roth are not taxable if the distribution is made after five consecutive tax years since the first Roth contribution was made AND the distribution is made after age 59½ or because of death or disability. Investing involves market risk, including possible loss of principal. Nationwide representatives cannot offer investment, tax or legal advice. Information provided by Account representatives is for educational purposes only and not intended as investment, tax or legal advice. Account representatives are registered representatives of Nationwide Investment Services Corporation, member FINRA.

## HOW ARE MY ROTH CONTRIBUTIONS INVESTED?

Participants will provide allocation directions from the available investment options for their Roth contributions upon enrollment. Allocation directions can be changed anytime and do not have to be the same as any pre-tax accounts.

## WHO IS THE BENEFICIARY OF MY ROTH ACCOUNT?

Participants may choose an individual(s), their estate, a trust, or a charitable organization as a beneficiary for the Roth account. To select, change or update your beneficiaries, download the Beneficiary Form from our website. A participant's age, death or disability is used to determine qualified status for a distribution to an alternate payee or beneficiary. If a distribution is rolled over, the alternate payee or beneficiary's age, death or disability is used. Beneficiaries retain the same income tax treatment as if the participant had received the withdrawal. The five-year holding requirement applies for a withdrawal to be considered qualified even in the case of death.

## ARE IN-PLAN CONVERSIONS PERMITTED FOR PRE-TAX ACCOUNTS/DEFERRALS?

No. In-plan conversions are not permitted at this time.

## ARE ROTH IRA ROLLOVERS TO OHIO DC PERMISSIBLE?

Federal regulations do not allow rollovers of Roth IRA funds to a deferred compensation plan.

## ARE ROTH 457(b), 401(k), 403(b) AND 401(a) ROLLOVERS TO OHIO DC PERMISSIBLE?

No, not currently.

## HOW DO I KNOW IF A ROTH 457 IS RIGHT FOR ME?

Determine the possible tax advantages of making after-tax contributions by using the Roth Analyzer at [Ohio457.org](https://Ohio457.org). The tool will provide you with a detailed summary based on your answers. However, you should consult with a tax advisor to assist you in making a decision.

## HOW DO I ENROLL IN A ROTH 457?

Once you've determined whether your employer offers the Roth 457, you will need to enroll in a Roth 457 account. You can enroll in a Roth account in person, online or by requesting paperwork at 877-644-6457.



## OHIO DEFERRED COMPENSATION