



EDUCATORS RETIREMENT PLAYBOOK

Educators Retirement Playbook
<http://www.educatorsretirementplaybook.com>

The Roth 403(b)



Roth contributions could play an important role in maximizing your retirement income.

¹ Special Section 403(b) catch-up rules may also apply.

² If you have both a traditional IRA and a Roth IRA, your combined contributions to both cannot exceed \$6,000 (\$7,000 if age 50 or older) in 2019.

Some employers offer 403(b) plan participants the opportunity to make Roth 403(b) contributions. If you're lucky enough to work for an employer that offers this option, Roth contributions could play an important role in maximizing your retirement income.

What is a Roth 403(b)?

A Roth 403(b) is simply a traditional 403(b) plan that accepts Roth 403(b) contributions. Roth 403(b) contributions are made on an after-tax basis, just like Roth IRA contributions. This means there's no up-front tax benefit, but if certain conditions are met, your Roth 403(b) contributions and all accumulated investment earnings on those contributions are free from federal income tax when distributed from the plan. [401(k) and 457(b) plans can also allow Roth contributions.]

Who can contribute?

Once you're eligible to participate in a 403(b) plan, you can make Roth contributions regardless of your salary level. (This is in contrast to a Roth IRA where your contributions may be reduced, or you may not be eligible to contribute at all, if your income exceeds certain amounts.)

How much can I contribute?

There's an overall cap on your combined pre-tax and Roth 403(b) contributions. In 2019, you can contribute up to \$19,000 of your pay (\$25,000 if you're age 50 or older)¹ to a 403(b) plan. You can split your contributions any way you wish. For example, you can make \$10,000 of Roth contributions and \$9,000 of pre-tax 403(b) contributions. It's up to you.

But keep in mind that if you also contribute to a 401(k), SIMPLE, SAR-SEP, or another 403(b) plan, your total contributions to all of these plans — both pre-tax and Roth — can't exceed \$19,000 (plus catch-up contributions) in 2019. It's up to you to make sure you don't exceed these limits if you contribute to plans of more than one employer.

If you also participate in a Section 457(b) plan, any

pre-tax contributions you make to the 457(b) plan are in addition to your 403(b) contributions. This means you can contribute up to \$19,000 of pay, Roth or pre-tax, to the 403(b) plan and an additional \$19,000 pre-tax to the 457(b) plan in 2019 (plus catch-up contributions) — a significant savings opportunity.

Can I also contribute to a Roth IRA?

Yes. Your participation in a Roth 403(b) plan has no impact on your ability to contribute to a Roth IRA. You can contribute to both if you wish (assuming you meet the Roth IRA income limits). You can contribute up to \$6,000 to a Roth IRA in 2019, \$7,000 if you're age 50 or older (or, if less, 100% of your taxable compensation).²

Should I make pre-tax or Roth 403(b) contributions?

When you make pre-tax 403(b) contributions, you don't pay current income taxes on those dollars. But your contributions and investment earnings are fully taxable when you receive a distribution from the plan. In contrast, Roth 403(b) contributions are subject to income taxes up front, but qualified distributions of your contributions and earnings are entirely free from federal income tax.

The better option depends on your personal situation. If you think you'll be in a similar or higher tax bracket when you retire, Roth 403(b) contributions may be more appealing, since you'll effectively lock in today's lower tax rates. However, if you think you'll be in a lower tax bracket when you retire, pre-tax 403(b) contributions may be more appropriate. Your investment horizon and projected investment results are also important factors. A financial professional can help you determine which course is best for you.

Are distributions really tax free?

Because your Roth 403(b) contributions are made on an after-tax basis, they're always free from federal income tax when distributed from the plan. But the investment earnings on your Roth contributions are

³ You can avoid tax on the non-Roth portion of your distribution (any pre-tax contributions, employer contributions, and investment earnings on these contributions) by rolling that portion over to a traditional IRA. When considering whether to make a rollover or to keep your funds in your 403(b) plan, you should consider carefully the investment options, fees and expenses, services, ability to make penalty-free withdrawals, degree of creditor protection, and distribution requirements associated with each option.

⁴ As of April 1, 2016 (the limit is adjusted for inflation every three years). SEP/SIMPLE IRAs and amounts rolled over from qualified employer retirement plans and 403(b) are not included in or subject to this limit, and are fully protected if you declare bankruptcy. Inherited IRAs are not entitled to federal bankruptcy protection but may be protected under the laws of some states.

tax free only if you meet the requirements for a "qualified distribution."

In general, a distribution is qualified only if it satisfies both of the following requirements:

- It's made after the end of a five-year waiting period
- The payment is made after you turn 59½, become disabled, or die

The five-year waiting period for qualified distributions starts with the year you make your first Roth contribution to the 403(b) plan. For example, if you make your first Roth contribution to your employer's 403(b) plan in December 2019, then the first year of your five-year waiting period is 2019, and your waiting period ends on December 31, 2023.

But if you change employers and roll over your Roth 403(b) account from your prior employer's plan to your new employer's plan (assuming the new plan accepts Roth rollovers), the five-year waiting period starts instead with the year you made your first contribution to the earlier plan.

If your distribution isn't qualified (for example, you receive a payout before the five-year waiting period has elapsed or because you terminate employment), the portion of your distribution that represents investment earnings on your Roth contributions will be taxable and subject to a 10% early distribution penalty unless you're 59½ or another exception applies.

You can generally avoid taxation by rolling your distribution over to a Roth IRA or to another employer's Roth 401(k), 403(b), or 457(b) plan, if that plan accepts Roth rollovers. [State income tax treatment of Roth 403(b) contributions may differ from the federal rules.]³

What about employer contributions?

Your employer can match your Roth contributions, your pre-tax contributions, or both. But your employer contributions are always made on a pre-tax basis, even if they match your Roth contributions. That is, your employer's contributions, and investment earnings on those contributions, are not taxed until you receive a distribution from the plan.

What else do I need to know?

Like pre-tax 403(b) contributions, your Roth 403(b) contributions and investment earnings can be paid from the plan only after you terminate employment, incur a financial hardship, attain age 59½, become

disabled, or die.

You must begin taking distributions from a Roth 403(b) plan after you reach age 70½ (or after you retire if later). But this isn't as significant as it might seem, since you can generally roll over your Roth 403(b) dollars (other than RMDs themselves) to a Roth IRA if you don't need or want the lifetime distributions.

Employers aren't required to make Roth contributions available in their 403(b) plans. So be sure to ask your employer if it is considering adding this exciting feature to your 403(b) plan.

	Roth 403(b)	Roth IRA
Maximum contribution (2019)	Lesser of \$19,000 or 100% of compensation	Lesser of \$6,000 or 100% of compensation
Age 50 catch-up (2019)*	\$6,000	\$1,000
Who can contribute?	Any eligible employee	Only if under income limit
Age 70½ required distributions?	Yes	No
Potential matching contributions?	Yes	No
Potential loans?	Yes	No
Tax-free qualified distributions?	Yes, 5-year waiting period plus either 59½, disability, or death	Same, plus first-time homebuyer expenses (up to \$10,000 lifetime)
Investment choices	Limited to plan options	Virtually unlimited
Federal bankruptcy protection	Unlimited	\$1,283,025 (All IRAs aggregated) ⁴

*Special Section 403(b) catch-up rules may also apply.

IMPORTANT DISCLOSURES

Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, legal, or retirement advice or recommendations. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable — we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.