

Comparing Tax-Deferred Traditional & After-Tax Roth Retirement Savings Options

The chart below can provide you with a possible way to evaluate the choice to pay taxes today or in retirement. It assumes you contribute the same amount while working, whether as after-tax Roth (paying income taxes now with tax-free withdrawals for qualified distributions) or traditional tax-deferred (which can reduce your taxable income today but you pay taxes on distributions). Central Michigan University does not provide (nor is this intended to constitute) tax, legal, accounting, estate planning or investment advice. Your specific circumstances may not be addressed by this chart. It is the responsibility of the individual to address questions or concerns to a qualified professional.

CONSIDERATION	TAX-DEFERRED TRADITIONAL	AFTER-TAX ROTH
Contributions when deducted from your paycheck	Not subject to income tax; can reduce your current taxable income.	Subject to income tax; will not reduce your taxable income.
Distribution of contributions	Taxable	Tax-Free
Tax-Free Qualified Distribution	Taxable – All distributions are taxed as ordinary income.	Tax-free -if the following criteria are met: 5 year holding period <u>and</u> distribution due to: <ul style="list-style-type: none"> • Attainment of age 59 ½ • Disability • Death
Subject to income tax to beneficiaries in the event of death?	Yes	Tax-free if the deceased started making Roth contributions more than 5 tax years prior to distributions.
Estate tax	May apply	May apply
Subject to required minimum distributions at age 70 ½?	Yes. Minimum distributions must begin by April 1 of the calendar year following the calendar year you reach age 70 ½ once you have retired or terminated from CMU. If you are already over 70 ½ when you retire or terminate, then you must begin minimum distribution by April 1 of the following calendar year.	Yes. Minimum distributions must begin by April 1 of the calendar year following the calendar year you reach age 70 ½ once you have retired or terminated from CMU. If you are already over age 70 ½ when you retire or terminate, then you must begin minimum distribution by April 1 of the following calendar year. However, if the Roth 403(b) or Roth 457(b) is rolled over to a Roth IRA before the calendar year in which you reach age 70 ½ you can delay distributions indefinitely during your lifetime.
Subject to IRS 10% penalty for distributions prior to age 59 ½?	<ul style="list-style-type: none"> • 403(b) SRA: Yes • 457(b): No 	<ul style="list-style-type: none"> • 403(b) SRA: <ul style="list-style-type: none"> ○ After-tax contributions: No ○ Earnings: Yes, unless an exception applies • 457(b): <ul style="list-style-type: none"> ○ After-tax contributions: No ○ Earnings: No
Rollovers	To another tax-deferred 403(b), 457(b), 401(k), 401(a), Traditional IRA and Roth IRA.	To another after-tax Roth 457(b), Roth 403(b), Roth 401(k), Roth 401(a) or Roth IRA.