

Roth Retirement Plan Contribution Option Frequently Asked Questions

Q: What is the difference between a Traditional and Roth retirement plan contribution option?

A: Traditional contributions to a retirement plan are made on a tax-deferred basis, meaning they are not subject to income tax when deducted from your paycheck but they are taxed when you take a distribution at a later time. As another option, Roth contributions are taxable at the time the contribution is made. You pay taxes “today” but will not pay taxes at the time of withdrawal.

Q: Who can benefit from a Roth 403(b)?

A: You may want to make after-tax Roth contributions if you:

- Expect to be in a higher tax bracket in retirement.
- Want qualified tax-free distributions in retirement.
- Want the option to postpone required minimum distributions at age 70 ½ (requires rollover to a Roth IRA).
- Cannot have a Roth IRA due to IRS income restrictions.
- Want to pass on assets tax-free to heirs.
- Want to make after-tax Roth contributions in excess of Roth IRA limits.
- Have a long retirement horizon that will allow time to accumulate significant tax-free earnings which can be withdrawn tax-free.
- Want tax diversification of having both after-tax and tax-deferred assets as a hedge against potential tax increases.
- Want to achieve the maximum benefit. A qualified Roth distribution may provide more income in retirement than an equivalent distribution from a tax-deferred 403(b) or 457(b) since Roth earnings are tax-free instead of just tax-deferred.

Q: How much can I contribute using the after-tax Roth contribution option?

A: The Internal Revenue Service announces contribution limits each calendar year.

- Any combination of before-tax Traditional and after-tax Roth contributions, up to the IRS limit.
- For 2019, the IRS annual limit is \$19,000 under age 50 and \$25,000 over age 50.

Q: When can I take a tax-free withdrawal from my after-tax Roth balance?

A: Age 59 1/2 and no earlier than five years after the first contribution was made, or if you are permanently disabled. Beneficiaries may receive a distribution in the event of your death.

Q: Can I roll over my after-tax Roth savings from one employer’s plan to another?

A: You can roll over your after-tax Roth contributions and any earnings in your CMU retirement plan to another retirement plan if it accepts the funds*.

*Prior to rolling over assets, you should carefully consider your other available options. You may also be able to leave money in your current plan, roll over money to an IRA, or cash out all or part of the account value. You should weigh each option carefully and its advantages and disadvantages, including desired investment options and services, fees and expenses, withdrawal options, required minimum distributions, tax treatment, and your unique financial needs and retirement plan. You should seek the guidance of your financial professional and tax advisor prior to roll over.

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Q: Are after-tax Roth assets subject to IRS required minimum distribution rules?

A: If you participate in a retirement or deferred compensation plan, you are generally required to take minimum distributions at age 70 1/2. Roth IRAs are not subject to required minimum distributions. You can roll over after-tax Roth retirement plan contributions to a Roth IRA, but the five-year period does not carry over.

Q: Is there an income restriction on participating in the Roth contribution option?

A: No. Faculty and staff at any income level may contribute to the Roth 403(b) and Roth 457(b). The IRS limit that applies to a Roth IRA offered through a bank or other financial institution (\$137,000 for single filers and \$203,000 for married couples filing jointly for 2019) does not apply to the Roth retirement savings plan options. In addition, your entire 403(b) and 457(b) contributions can be made as after-tax Roth, allowing you to contribute much more than the 2019 Roth IRA limit of only \$6,000 (or \$7,000 if you are 50 or older).

Q: Do I have the same investment options for the Roth 403(b) and 457(b) as I do with the Traditional (or before tax) 403(b) and 457(b)?

A: Yes. All fund options available to the Traditional (or before tax) 403(b) and 457(b) participants are available to Roth participants.

Q: Can I max out the limit on my Traditional contributions and separately max out the limit on my Roth contributions?

A: No. The after-tax Roth option does not increase the annual contribution limits for the 403(b) SRA and 457(b) plans. It just means that you may designate some or all of your contribution to these plans as after-tax Roth.

Q: If I would like more information, who can I contact?

TIAA

800-842-2252 (telephone counseling services)

800-732-8353 or online at [TIAA.org/schedulenow](https://www.tiaa.org/schedulenow) (schedule in-person sessions)

www.tiaa.org/cmich

CMU Benefits & Wellness Office

989-774-3661

benefits@cmich.edu