

# THE ROTH 457 OPTION: IS IT RIGHT FOR YOU?



Your 457 Plan accepts Roth 457 contributions, giving you the flexibility to designate all or a portion of your 457 elective deferrals as Roth contributions. Roth 457 after-tax contributions and traditional before-tax 457 contributions 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 457 contributions?

Roth contributions are made with after-tax dollars. Traditional 457 contributions are made on a before-tax basis and you pay taxes only when you take a distribution.

You can choose different fund allocations within your traditional and Roth accounts from your SMART Plan fund lineup.

### Can employer contributions be designated as Roth?

No, employer contributions can only be made on a before-tax basis.

### Do I pay taxes when I take a distribution from my Roth 457 account?

Your distribution is income tax-free if you are eligible for a distribution from your Plan and you withdraw your Roth contributions and any earnings after holding the account for at least five tax years **and**:

- You are at least age 59½; or
- You become disabled; or
- You die (in which case, your beneficiaries will take a withdrawal).

If a distribution is made from your Roth 457 account before you reach age 59½ and it is not due to death or disability, or reaching the five-tax-year holding period, you will pay income taxes on any earnings that are distributed. Otherwise, there is no income tax due on the Roth contributions distributed from the Plan because contributions are made with after-tax dollars.

### Do I pay taxes when I take a distribution from my traditional 457 account?

Withdrawals of contributions and any earnings from your traditional before-tax 457 account are subject to income taxes.<sup>1</sup>

### Are there any limitations on a participant's income as it relates to their eligibility to participate in the Roth 457 option?

There are no income limitations on participants as it relates to their eligibility to make Roth contributions to the SMART Plan. However, annual contribution limits do apply.

### How much can I contribute?

The maximum combined contribution limit in 2023 is \$22,500. If you are age 50 or older, you can make additional catch-up contributions of \$7,500. If you are in the three years ending prior to the year you attain normal retirement age under the Plan, you may be able to contribute up to \$45,000 in 2023 (called three-year catch-up contributions). The amount you are allowed to contribute is based on amounts you were eligible to contribute to the 457 Plan in previous years but did not. The age 50+ catch-up and three-year catch-up provisions may not be used in the same year.

### How does the Roth 457 differ from a Roth IRA?

- **Contribution limits** – Roth IRA contributions are limited to \$6,500 in 2023 (or \$7,500 if you are age 50 or older) versus \$22,500 for the Roth 457 (or \$30,000 if you are age 50 or older). You can contribute more on an after-tax basis to your Roth 457 than to a Roth IRA.
- **Eligibility** – If you're single and earn more than \$153,000 a year or are married with a joint income of more than \$228,000 in 2023, you aren't eligible to contribute to a Roth IRA in the same year. However, if you meet your Plan's eligibility requirements, you can participate in the Roth 457 Plan regardless of your income.





## Can I convert my before-tax account balance into a Roth account?

Yes. Complete an In-Plan Roth Rollover/Transfer Request and designate all or a portion of your current before-tax balance as Roth funds.

There may be significant tax consequences in converting traditional before-tax contributions into Roth assets. Participants who have elected this conversion will receive an IRS Form 1099 to include with their annual tax return. As with any financial decision, you are encouraged to discuss moving money between accounts, including rollovers, with a financial advisor and to consider costs, risks, investment options and limitations prior to making account changes.

Please note that any funds currently in the self-directed brokerage account (SDBA) must first be transferred into the SMART Plan's core account funds, and a Roth SDBA must be established.

Additionally, once an in-plan Roth conversion has been processed, it is irrevocable, and it cannot be changed.

## 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 457 account to a Roth IRA or to a 457, 401(k) or 403(b) plan that has a designated Roth account and accepts Roth rollovers. You can roll over your traditional 457 account to any eligible traditional IRA, Roth IRA, governmental 457 plan, 403(b) plan or qualified 401(k) plan that accepts rollovers.

	Before-tax 457	After-tax Roth 457
Is my contribution taxable in the year I make it?	No	Yes
Is my contribution taxed when distributed?	Yes	No
Are the potential earnings on my contributions taxed when distributed?	Yes	No, provided the distribution occurs after you have reached age 59½ or upon disability or death AND no earlier than five tax years after your first Roth 457 contribution
If I change jobs, can I roll over my account?	Yes, to a qualified 401(k) plan, traditional IRA, Roth IRA, 403(b) plan or governmental 457(b) plan if the plan allows it	Yes, to a Roth IRA or governmental 457(b) plan, 401(k) plan or 403(b) plan if the plan has a designated Roth account and accepts rollovers <sup>2</sup>
	Consider all your options and their features and fees before moving money between accounts.	
What is the maximum amount I can contribute?	Combined limit for contributions in 2023: \$22,500 or \$30,000, including the additional \$7,500 age 50+ catch-up contribution, or up to \$45,000 if eligible for three-year catch-up contributions. The age 50+ catch-up and three-year catch-up provisions may not be used in the same year.	
If I experience an unforeseeable emergency, can I make a withdrawal?	Yes	Yes
Do I have to take a minimum distribution at age 72 (or age 70½ if you reached 70½ before January 1, 2020)?	Yes	Yes

## How do I choose the Roth option?

If you are already enrolled in the SMART Plan, log on to [www.mass-smart.com](http://www.mass-smart.com) and click on *Account > My contributions*. Otherwise, you may make the Roth election using the Participant Enrollment Form on the website at [www.mass-smart.com](http://www.mass-smart.com) > *About your plan > Enroll now*. Contact the SMART Plan Service Center at 877-457-1900 if you need help with either option.

## Making the best choice for you

You will have to determine whether contributing to the SMART Plan on an after-tax Roth basis or a traditional before-tax basis makes more sense for your situation. The Roth 457 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 457 option may make the most sense. 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 457 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 during retirement (when many people expect their retirement earning power and tax burden to be lower than they are 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 you decide that Roth 457 contributions are right for you, you can make the appropriate changes to your account by logging on to the website at [www.mass-smart.com](http://www.mass-smart.com) and clicking *Account > My contributions*. You can also call the SMART Plan Service Center at 877-457-1900. If you are not currently enrolled in the SMART Plan, you can elect to make Roth 457 contributions by completing a SMART Plan participant enrollment form.

1 Withdrawals may be subject to income tax.

2 Governmental 457 funds rolled into another type of plan or account may become subject to the 10% early withdrawal penalty if taken before age 59½.

Investing involves risk, including possible loss of principal.

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For more information about the Roth 457 option, please contact your local SMART Plan Retirement Plan Advisor at **877-457-1900** or go to [www.mass-smart.com](http://www.mass-smart.com)