

# Roth 457

An opportunity for  
tax-free\* retirement income.

## The Roth 457(b) contribution option.

Your employer has enhanced its 457(b) plan to give you even more flexibility! The plan now includes a Roth 457(b) feature. This option doesn't change how much you can contribute. Nor does it change where you can invest. What it does is give you more control over when your contributions – and retirement income – will be subject to federal income tax.

Unlike contributions to a traditional 457(b) plan, which are made on a pre-tax basis, contributions to a Roth 457(b) are made on an after-tax basis. What this means is your Roth contributions will be subject to income taxes before they're invested in your 457(b) account.

In exchange, though, you may be able to withdraw your contributions and any earnings tax-free when you retire (qualifying factors apply) ... which could mean more retirement income.

In short, you'd be trading a current tax benefit for a future tax benefit. So does this trade-off make sense for you? It primarily depends on whether you think your federal income tax rate will be higher at retirement, or lower. Let's take a closer look.

Please note: Designated Roth contributions are only permitted in 457(b) plans sponsored by governmental entities and public schools.

\*Qualifying conditions apply.

# Would you rather pay taxes later?

## Compare the Traditional 457(b)...

**Now:** Pay no income taxes on contributions during your working years.

**Later:** Pay taxes when you withdraw during retirement.

**Money going in:** (contributions) **Pre-tax** contributions are deducted from your salary before taxes are taken. That can reduce your taxable income.

**Earnings, if any:** Are **tax-deferred** until withdrawn.

**Money coming out:** (distributions) Distributions are **taxable** as current income when withdrawn.

**Money moving on:** (rollovers) Rollovers allowed to another Traditional governmental 457(b), 403(b), 401(a)/(k) or Traditional or Roth IRA.

**Required minimum distributions (RMD):** The IRC requires distributions to begin at the later of age 70½ or retirement. An IRC 50% penalty tax applies to any RMD amount not taken in a timely manner.

## with the Roth 457(b).

**Now:** Pay income taxes on contributions as you make them.

**Later:** Withdraw savings tax-free during retirement.

**After-tax** contributions are subject to federal (and where applicable, state, and local) income tax withholding.

Are **tax-free** as long as certain qualifying conditions are met (see next paragraph).

**Tax-free** distributions, as long as you've (distributions) satisfied the five-year holding period and are age 59½ or older (assuming you have separated from service), or disabled (assuming you have separated from service) or deceased.

Rollovers allowed to another **Roth** account in a governmental 457(b), 403(b), 401(k) or Roth IRA. (Rollovers to plans other than a governmental 457(b) plan may be subject to the IRC 10% premature distribution penalty tax, unless another exemption applies.)

The IRC requires distributions to begin at the later of age 70½ or retirement. However, you can roll over your Roth 457(b) to a Roth IRA, where minimum distributions are **not required**.

Voya Financial® does not offer legal or tax advice. Consult with your tax and legal advisors regarding your individual situation.

Whichever 457(b) option you choose, you'll enjoy these key benefits.

- **Investing convenience.** You can put money aside using automatic payroll deductions.
- **Investment flexibility.** You can select from the same menu of investment options and/or well-known variable investment options.
- **Higher contribution limits.** You can contribute more through your employer's plan than you can in an individual retirement account (IRA) you set up on your own.

**This material is not intended to be used to avoid tax penalties. The taxpayer should seek advice from an independent tax advisor.**

## So, which option is right for you?



### Jeff (Age 45): Wants current tax break

Jeff considers himself in his “peak” earning years. He knows he won’t be making this money forever, but wants to enjoy it while he can.

- Doesn’t think he can afford to lose another tax deduction at this point
- Doesn’t really like change anyway
- Expects to be in a lower tax bracket when he retires

#### Comparing Jeff’s options:

	<b>Traditional</b> Pre-tax 457(b)	<b>Roth</b> After-tax 457(b)
Gross income:	\$75,000	\$75,000
Annual salary available to save:	\$10,000	\$10,000
<b>Less taxes at 25%<sup>1</sup>:</b>	-\$0	-\$2,500
Net yearly contribution	\$10,000	\$7,500
(totals over 20 years:	\$200,000	\$150,000)
Value at retirement (assumes <b>20</b> years of contributions at 6%):	\$378,572	\$283,929
<b>Less taxes at 15%<sup>2</sup>:</b>	-\$56,786	-\$0
<b>After-tax value:</b>	<b>\$321,786</b>	\$283,929

Considering

**Traditional 457(b)**



### Linda (Age 25): Wants long-term tax-free growth potential

Linda just got out of grad school and is embarking on her new career. She feels good about the fact she’s already starting to build up her savings.

- Isn’t worried about the tax deduction now
- Confident her salary will increase over the years to come
- Expects to be in a higher tax bracket when she retires

#### Comparing Linda’s options:

	<b>Traditional</b> Pre-tax 457(b)	<b>Roth</b> After-tax 457(b)
Gross income:	\$35,000	\$35,000
Annual salary available to save:	\$3,000	\$3,000
<b>Less taxes at 15%<sup>1</sup>:</b>	-\$0	-\$450
Net yearly contribution	\$3,000	\$2,550
(totals over 40 years:	\$120,000	\$102,000)
Value at retirement (assumes <b>40</b> years of contributions at 6%):	\$477,811	\$406,140
<b>Less taxes at 33%<sup>2</sup>:</b>	-\$157,678	-\$0
<b>After-tax value:</b>	\$320,134	<b>\$406,140</b>

Considering

**Roth 457(b)**

There are many reasons why a Roth 457(b), a Traditional 457(b) or a combination of both might be right for you. A lot depends on when you expect to be in a higher tax bracket – now or when you retire. You’ll also need to factor in your current financial situation, future goals and personal attitudes as well – as these scenarios illustrate.

<sup>1</sup> Based on current federal tax rates.

<sup>2</sup> Assumed rates designed to illustrate impact of lower and higher tax rates in retirement.

Note: These are hypothetical illustrations for demonstration purposes only. They are not guaranteed and not intended to (1) serve as financial advice or as a primary basis for investment decisions and (2) imply the performance of any specific security. Contributions are subject to Internal Revenue Code limits. Systematic investing does not ensure a profit nor guarantee against loss. Investors should consider their ability to invest consistently in up as well as down markets. This example does not represent any specific product, nor does it reflect sales charges or other expenses that may be required for some investments. After tax value of traditional 457(b) assumes a one time lump sum distribution. Your actual results may vary.

# Still have more questions?

## What is the “five-year rule”?

**It determines when you can take tax-free income.** Subject to your plan’s distribution rules, you make a tax-free withdrawal from your Roth 457(b) if your first Roth 457(b) contribution was made at least five years ago and you are at least age 59½ (assuming you have separated from service), or become disabled (assuming you have separated from service) or deceased. Special rules apply to rollovers.

## I’m young and currently in a low tax bracket. Is the Roth 457(b) right for me?

The longer you can leave your money in your Roth 457(b) and the higher you expect your taxes to be in the future, the more you may be able to benefit from the tax-free income a Roth 457(b) can provide in the future.

## I may retire in a few years. Is the Roth 457(b) right for me?

To qualify for tax-free income from a Roth 457(b), remember you have to satisfy the “five-year rule” explained above. So, to make a tax-free withdrawal from your Roth 457(b), you have to be entitled to a distribution and be at least age 59½, or become disabled or deceased and have made the initial contribution at least five years ago.

## How will taxes affect my employer’s match (if my plan provides)?

Both Traditional and Roth 457(b) contributions are eligible for an employer match if your plan provides. The match will be held in a separate pre-tax account and treated as a pre-tax contribution and the earnings will be tax deferred. You will pay taxes on your employer match as well as the earnings on that match when you withdraw during retirement.

## Does the 10% IRC penalty tax for distributions prior to age 59½ apply?

Generally no but an IRC 10% premature distribution penalty tax could apply if you were to roll designated Roth amounts from a 401(k) or 403(b) plan into a governmental 457(b) plan with a Roth feature if, when withdrawn, those amounts were considered non-qualified Roth distributions.

## Why should I consider the Roth 457(b) instead of a Roth IRA?

Not everyone can qualify for a Roth IRA. You can only contribute the full amount if your adjusted gross income (AGI) falls below certain limits set by the IRS. You can also contribute significantly more to a Roth 457(b) than you could to a Roth IRA (if eligible). For current IRS limits on retirement savings account contributions, go to [www.voya.com/IRSlimits](http://www.voya.com/IRSlimits).

## How will contributing to a Roth 457(b) affect my take-home pay?

Unlike a Traditional 457(b), contributions to a Roth 457(b) won’t reduce your current taxable income. So you’ll actually be paying taxes on a higher amount, which could reduce your take-home pay.

	Traditional 457(b)	Roth 457(b)
<b>Gross income:</b>	<b>\$50,000</b>	<b>\$50,000</b>
Traditional 457(b) contribution	-\$5,000	N/A
<b>Taxable Income</b>	<b>\$45,000</b>	
25% <sup>1</sup> income taxes:	-\$11,250	-\$12,500
<b>After-tax income</b>	<b>\$33,750</b>	<b>\$37,500</b>
Roth 457(b) contribution	N/A	-\$5,000
<b>Take-home pay</b>	<b>\$33,750</b>	<b>\$32,500</b>

Contributing to a Roth 457(b) may also affect your ability to take other tax credits and deductions (for example, student loan deductions, medical expense deductions and child care tax credits). Whether you qualify for these tax credits and deductions depends on your income level. Since Roth 457(b) contributions won’t reduce your adjusted taxable income, that could affect your eligibility for these tax reductions.

<sup>1</sup> Based on current federal tax rates.



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