

How can I start making Roth 403(b) contributions?

WEA Trust Member Benefits offers the Roth feature to its program sponsors (employers). However, districts are not required to offer the Roth 403(b) feature in their plan, so check with your employer. Current participants whose employer offers the Roth 403(b) need to complete a new SRA and choose investment allocations for their Roth contributions. If you do not have a 403(b) account with Member Benefits, you will need to complete an enrollment application as well.

What's the role of the Roth IRA?

The Roth IRA is another after-tax savings option. If you are maximizing your 403(b) contributions, or you are concerned about the ability to access your contributions before retirement, you may want to contribute to the Roth IRA.

However, not everyone is eligible to contribute to a Roth IRA. Your income must not exceed the stated Internal Revenue Service limits. Income limits are not applicable to the Roth 403(b).

Also worth noting is the difference between contribution limits for the Roth IRA and Roth 403(b). Contribution limits are substantially lower in the Roth IRA.

The Basics About 403(b) and Roth 403(b) Savings

	Before-tax	After-tax (Roth)
Contributions	Taxed upon withdrawal	Taxed before contributed
Earnings	Taxed upon withdrawal	Tax-free (qualified contributions)
MRD	Age 70½	Age 70½ unless rolled to Roth IRA
Taxes	Protects against declining tax rates	Protects against increasing tax rates
Beneficiaries	Taxed to heirs	Tax-free inheritance
Penalty-free withdrawals	Age 55 and retired	Age 55 and retired
Tax-free withdrawals	N/A	Age 59½ and account is held for 5 years
Income Restrictions	N/A	N/A

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To Roth or Not to Roth in Your 403(b)

Designating your 403(b) contributions



Every Member Financially Secure

This brochure explains the new Roth 403(b) and provides information to help you decide how after-tax and before-tax savings fit into your retirement savings strategy.

What is a 403(b)?

A 403(b) (also known as a tax-sheltered annuity), is a retirement savings program that allows public school employees to save for retirement with payroll contributions.

Until recently, all contributions were made on a before-tax basis, allowing participants to defer taxes until the money was withdrawn in retirement. The IRS recently expanded the 403(b) savings options allowing participants to designate their 403(b) contributions as before-tax or after-tax (Roth).

Whether you are a new enrollee in the 403(b) or a current participant, you will want to consider designating some or all of your contribution to this new after-tax savings opportunity.

What is the Roth 403(b) and how is it different from the standard 403(b)?

Roth contributions are after-tax, which means you pay taxes now on your contributions, but all qualified* withdrawals, including earnings, are tax-free.

This is different from 403(b) contributions that are made on a before-tax basis. Before-tax

Participants may make contributions on a before-tax basis, an after-tax (Roth) basis, or some combination of the two up to the 403(b) limit.

contributions reduce your taxable income and defer taxes until you withdraw the money.

So the question is, do you want to pay the taxes on your contributions now or when you retire?

*For qualified withdrawals from the Roth 403(b), the participant must be age 59½ or older and have had the account for at least five years.

What is the benefit of after-tax savings?

One of the greatest benefits of Roth savings is the ability to reduce your tax liability in retirement.

For decades the assumption has been that most people would be in a lower tax bracket in retirement and thus would benefit from before-tax savings. However, changes in tax policy, including lower tax rates, the taxation of Social Security, and other deductions available under the tax code increase the chances that you

could be in the same or higher tax bracket when you retire.

These changes mean that before-tax savings alone may not be the optimal tax strategy in every situation.

What does this mean to me?

In retirement, Wisconsin public school employees typically have at least three sources of income: Wisconsin Retirement System, Social Security, and individual retirement savings. All are taxable as ordinary income in retirement. Any tax savings realized today could be more than offset by a higher tax bill in retirement. The Roth 403(b) provides an opportunity to receive tax-free retirement income.

Is the Roth 403(b) right for everyone?

Before-tax contributions and *tax-deferred growth* are key advantages of 403(b) retirement savings accounts. However, there will be some who will benefit more from after-tax (Roth) contributions and *tax-free growth*.

Your Situation	Roth 403(b)
Young public school employees	Contributions compound tax-free for decades. Paying taxes on contributions at current rates may be better than paying higher taxes later on contributions and profits if you are taxed at a lower rate today. Note: If you are married with children and are taking advantage of special tax credits, you may be better served with before-tax contributions if after-tax (Roth) contributions would cause you to lose your tax credits.
Middle-age to older public school employees	Wisconsin public school employees have the benefit of receiving retirement income from the Wisconsin Retirement System, Social Security, as well as a 403(b) if contributions have been made. All are taxed when the money is withdrawn. Because retirement income from these sources may be substantial, you could get bumped into a higher tax bracket. If this is the case, you may benefit from paying taxes today on Roth contributions. A Roth 403(b) gives you access to some of your nest egg in retirement tax-free, allowing you to manage your tax situation and possibly prevent you from moving into a higher tax bracket.
Older parents or grandparents saving for a child's college education	Roth contributions may also come in handy for funding college education. You can access the money tax-free for this purpose if the Roth account is at least five years old and you are at least 59½ when the child enrolls in college. Plus, retirement accounts generally aren't part of federal financial-aid calculations.