The Roth 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 deferrals 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.

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

If you withdraw your Roth contributions and earnings once you have held the account for at least five years and:

- You are at least age 59½ and severed employment; or
- Due to disability; or
- Due to death (upon which your beneficiaries will take a withdrawal),

the distribution is income tax and penalty-free.

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-year period beginning with your first Roth contribution, you will pay income taxes on any earnings that are distributed. Otherwise, there is no income or penalty tax due on the Roth contributions distributed from the Plan since they are made with after-tax dollars.

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

Withdrawals of contributions and earnings from your traditional 457 are subject to income taxes.

How do Roth 457 after-tax contributions affect my take-home pay?

Roth 457 contributions reduce your take-home pay because you pay taxes on your Roth 457 contribution up front, rather than deferring those taxes until you take a distribution.

For example, let's assume you earn $40,000 annually and pay income tax at the assessment rate of 15%. If you contribute $5,000 before tax to a traditional 457 plan, you don't pay income tax on the $5,000 contribution. Your take-home pay is $29,750, which is greater than it would be if you had made an after-tax contribution. If you make a $5,000 Roth 457 contribution, you pay income taxes on that $5,000 immediately. Assuming a 15% tax rate, your take-home pay is only $29,000. That amounts to $750 less in take-home pay when you contribute to the Roth 457 account.

	Before-Tax 457	Roth After-Tax 457
Annual Salary	$40,000	$40,000
Minus Before-Tax Contributions	$5,000	$0
Taxable Pay	$35,000	$40,000
Minus Estimated Income Tax	$5,250	$6,000
Minus After-Tax Contributions	$0	$5,000
TAKE-HOME PAY	$29,750	$29,000

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How much can I contribute?

The maximum combined contribution limit in 2011 is $16,500. If you are age 50 or older, you can make additional "catch-up" contributions of $5,500. 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 $33,000 in 2011, called special catch-up contributions. The amount you are able to contribute is based on you amounts you were eligible to contribute to the 457 plan in previous years but did not. The age 50 or older catch-up and the special catch-up contributions 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 $5,000 in 2011 (or $6,000 if you are age 50 or older) versus $16,500 for the Roth 457 (or $22,000 if you are age 50 or older). So, 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 $122,000 a year or are married with a joint income of more than $179,000 in 2011, you aren't eligible to contribute to a Roth IRA in 2011. However, if you meet your Plan's eligibility requirements, you can participate in the Roth 457 Plan regardless of your income.

*Age 50+ may not be available for certain types of 457 plans. Additionally, participants in certain types of 457 plans may be eligible for special catch-up contributions.

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.

Can I leave my money in my Roth 457 indefinitely?

Once you reach age 70½, the government requires that you begin taking minimum distributions.

AT-A-GLANCE COMPARISON

	Before-Tax 457	**Roth After-Tax 457**
Is my contribution taxable in the year I make it?	No	Yes
Is my contribution taxed when distributed?	Yes	No
Are the earnings on my contributions taxed when distributed?	Yes	No, provided the distribution occurs after age 59½, death or disability and no earlier than five years after your first Roth 457 contribution
If I change jobs, can I roll over my account?	Yes, to a governmental 457 plan, traditional IRA, Roth IRA, 403(b) plan or qualified 401(k) plan if the plan allows it	Yes, to a Roth IRA, 457, 401(k) or 403(b) plan if the plan has a designated Roth account and accepts rollovers
What is the maximum amount I can contribute?	Combined limit for contributions in 2011: $16,500 or $22,000, including the additional $5,500 Age 50+ Catch-Up contributionup to $33,000 in 2011 if eligible for special 457 catch-up contributions. The age 50 or older catch-up and the special catch-up contributions may not be used in the same year.*	
If I experience an unforeseeable emergency, can I make a withdrawal?	Yes, if your Plan allows unforeseeable emergency withdrawals	Yes, if your Plan allows unforeseeable emergency withdrawals
Do I have to take a minimum distribution at age 70½?	Yes	Yes

*Age 50+ may not be available for certain 457 plans. Additionally, certain 457 plans may not allow special catch-up contributions.

Making the Best Choice for You

You will have to determine whether contributing to your 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. If you're one of those people, 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 at retirement (when many people expect their retirement earning power and tax burden to be lower than it is 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 after you've done your research and consulted the experts you decide that Roth 457 contributions are right for you, you can make the appropriate changes to your account by completing a Salary Deferral Agreement form available from your employer's human resources department, or by visiting your Plan's website or calling KeyTalk®.[1] If you are not currently enrolled in your Plan, you can elect to make Roth 457 contributions by completing your Plan's enrollment form.

For more information, contact a Great-West Retirement Services® representative at (713)-426-5588 or (877) 313-7693.[2]

1 Access to KeyTalk and the Website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.
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