

# **Roth 403(b) Contribution Option**

## **Frequently Asked Questions**

George Mason University offers a Roth 403(b) contribution option under the George Mason University Tax Deferred Savings Plan (the “Plan”). The following information can help you decide if this is the right contribution option for you. However, any employee considering making a Roth 403(b) contribution to the Plan should consult with their personal tax advisor prior to doing so.

### **Roth 403(b) Frequently Asked Questions**

#### **1. What are Roth 403(b) contributions?**

The Roth 403(b) contribution option is an after-tax retirement benefit that allows you to pay taxes now on the money you set aside instead of paying taxes at the time of withdrawal.

#### **2. Will I benefit from the Roth 403(b) contribution option?**

Pre-tax elective deferrals (the traditional deferrals you may have made to the Plan previously) reduce your taxable income for the year of the contribution and you pay income taxes on the amounts deferred and on any investment gains upon distribution from the plan. Essentially you are not taxed on those contributions until you take a distribution from the plan. When you eventually do take a distribution of your pre-tax elective deferrals, those deferrals and investment earnings on those deferrals are subject to federal income tax.

Roth 403(b) contributions do not reduce your taxable income for the year of the contribution. You will be taxed on those contributions in the year that they are made. However, when distributed, if the distribution is “qualified” (see Q&A 12 below) the Roth 403(b) contributions and earnings on those contributions will not be subject to federal income tax.

To determine whether you will likely benefit from utilizing the Roth 403(b) contribution option you should first have a sense of your current marginal tax rate (federal and state combined) and how that rate will be different at the time of distribution from the plan. If you expect your marginal tax rate will be higher at distribution or retirement, the Roth contribution will likely be the better choice. However, if you expect your marginal tax rate to be lower at the time of distribution or retirement, you will likely derive greater benefit from the immediate tax reduction of the pre-tax elective deferral – essentially, you will avoid higher taxes now and pay taxes on the entire distribution at lower tax rates.

You will likely benefit from the Roth 403(b) contribution option if:

- You have a longer time until retirement. This gives you longer to accumulate tax-free earnings.
- You are a highly compensated employee who is not eligible for a Roth IRA.
- You want to leave tax-free money to your beneficiaries.

You might not benefit from the Roth 403(b) contribution option if you are:

- Someone who expects Social Security to be main source of retirement income and you expect that your marginal tax rate will be lower at the time of distribution or retirement.
- A worker earning between \$20,000 and \$50,000 who qualifies for certain valuable tax credits, such as the earned income tax credit.

### **3. Is Roth 403(b) participation limited by household income?**

No. Unlike Roth IRA's, there are no maximum income limits for Roth 403(b) contributions.

### **4. How do I elect the Roth 403(b) contribution option?**

If you are currently contributing to the Plan, you need to complete a [403\(b\) Salary Reduction Agreement Form](#) and return it to the Human Resources and Payroll Office at MS 3C3. If you would like more information about the Roth 403(b) contribution offerings, you can call or visit the retirement vendor websites.

<a href="#">Fidelity</a>	(800) 343-0860
<a href="#">TIAA CREF</a>	(800) 842-2888

If you are contributing for the first time with the vendor, you will need to complete the [403\(b\) Salary Reduction Agreement Form](#) along with an online application with the vendor of your choice.

### **5. Can I split my deferral election, with some of the deferral being contributed as pre-tax elective deferrals and some of the deferral being contributed as an after-tax Roth 403(b) contribution?**

Yes. The plans allow you to elect a combination of both pre-tax elective deferrals and after-tax Roth 403(b) contributions. This is on the 403(b) Salary Reduction Agreement form you submit to the Human Resources and Payroll for payroll deduction.

### **6. Once I have made my deferral election, can I re-designate some of my prior after-tax Roth 403(b) contributions as pre-tax elective deferrals?**

No. A Roth 403(b) contribution (and earnings thereon) cannot be shifted to or commingled with pre-tax deferrals. The Roth 403(b) contributions and the earnings on those contributions are held in a separate account. However, you may file a new 403(b) Salary Reduction Agreement in which you reduce the amount of your Roth 403(b) contributions going forward.

### **7. Can any or all of my catch-up contributions be contributed as a Roth 403(b) contribution?**

Yes. All or part of an age 50 catch-up contribution can be designated as a Roth 403(b) contribution. In addition, an employee with 15 years or more service with George Mason University who is eligible to make an additional special lifetime catch-up deferral election may designate all or part of the special catch-up contribution as a Roth 403(b) contribution. Please

contact your vendor or the University's Human Resources and Payroll Office if you think you may be eligible for the special catch-up contribution.

**8. How are the annual IRS contributions limits affected by Roth 403(b) contributions?**

The combination of traditional pre-tax elective deferrals and Roth 403(b) contributions in the George Mason University 403(b) plans cannot exceed IRS limits. For 2010 the elective deferral limit is \$16,500 or \$22,000 if you are 50 or older in 2010.<sup>1</sup>

**9. How do Roth 403(b) contributions affect my paycheck?**

Unlike pre-tax contributions, Roth 403(b) contributions do not reduce your taxable income. Therefore if you elect Roth 403(b) contributions, your net pay is reduced due to additional tax withholdings. See the following example

*Hypothetical example:* Assume eligible gross compensation is \$60,000 per year or \$5,000 per month with a 25% federal tax withholding rate.

	<b>Pre-Tax Contributions</b>	<b>Roth 403(b) Contributions</b>
<b>Contribution</b>	10%	10%
<b>Compensation</b>	\$60,000	\$60,000
<b>Less: Pre-tax contribution for the year</b>	(\$6,000)	\$0
<b>Taxable income</b>	\$54,000	\$60,000
<b>Less: income taxes (25%)</b>	(\$13,500)	(\$15,000)
<b>Less: Roth 403(b) contribution</b>	\$0	(\$6,000)
<b>Net after-tax (take home pay)</b>	<b>\$40,500</b>	<b>\$39,000</b>
<b>Difference in take home pay:</b>		<b>(\$1,500)</b>

**10. Do I have the same investment options available for Roth 403(b) contributions as I do with the traditional pre-tax contributions?**

Yes, the same investment options are available for Roth 403(b) contributions.

**11. If I am an Employee who was hired on or after January 1, 2008, was automatically enrolled in the 403(b) plan, and have not filed a different election or Salary Reduction**

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<sup>1</sup> If you have 15 years or more of service with George Mason University, you may be entitled to make an additional special lifetime catch-up deferral election and a corresponding higher elective deferral limit. Please contact your vendor or the University's Human Resources and Payroll Office if you think you may be eligible for the higher elective deferral limit.

**Agreement Form, will any of my automatic contributions be contributed to the Plan as Roth 403(b) contributions?**

No. If you were automatically enrolled in the plan, and continue to make automatic contributions to the plan, your automatic contributions will be contributed as pre-tax elective deferrals only.

**12. What are the Qualified Distribution criteria for Roth 403(b) contributions?**

“Qualified” distributions are completely free of federal income tax. The result means that the investment gains are never taxed. For a distribution from a Roth 403(b) contribution account to be “qualified,” it must meet two conditions:

- a. Payment must be made after age 59 ½, disability, or death, and
- b. The Roth 403(b) contribution account must have been in existence at least five taxable years (i.e., calendar years) beginning on the first day of the first taxable year in which you make a Roth 403(b) contribution under the Plan.

Termination of employment (severance from service) before age 59 ½, disability, or death does not trigger a “qualified” distribution. In such an event, to qualify for a tax-free distribution, you will either need to leave the Roth 403(b) contribution account in the Plan until age 59 ½ or roll it over to a Roth IRA, a designated Roth 401(k) account, or another designated Roth 403(b) account.

**13. What if I want to take a distribution of my Roth 403(b) contributions and associated earnings before I have met the Qualified Distribution criteria?**

If a distribution of your Roth 403(b) contribution account is made before it has met the Qualified Distribution criteria, the amount of the distribution that represents income on the employee’s account is includable in gross income. The amount that represents your designated Roth 403(b) contribution is not taxable.

Penalties for early withdrawal still apply.

**14. Does electing Roth 403(b) contributions versus another 403(b) contribution affect when I can take money from the plan?**

Generally no, the rules governing when you can take a payment from the plan have not changed. However, no loans or are hardship withdrawals are permitted from your Roth 403(b) contribution account.

**15. What distribution options are available to me for my Roth 403(b) contribution account balance?**

You have the same distribution options for your Roth 403(b) contribution account balance as you do for other 403(b) pre-tax balances. Please note that Roth 403(b) contribution accounts may only be rolled over to another designated Roth 403(b) account, Roth IRA, or a designated Roth 401(k) account.

**Disclaimer**

George Mason University reserves the right to terminate, suspend, withdraw, amend or modify the Plan in whole or in part at any time. Further, George Mason University reserves the right to terminate or modify coverage for any group of employees, active or retired and their dependents or a class of dependents at any time.