Is a Roth 403(b) Right for You?

A Decision Guide for Employees

The Standard®

The Roth 403(b) and Your Retirement Plan

Is a Roth Right for You?

- The Roth option, if offered by your plan, is available to any employee who is eligible to contribute to a traditional account, a Roth account or both. Roth contributions are made on an after-tax basis and earnings grow tax-free.
- Qualified distributions are not subject to federal income tax. A distribution is qualified if it has been at least five years since the first contribution and the participant is at least 59½, disabled or deceased.
- A Roth IRA account balance cannot be rolled over to a traditional, pre-tax retirement plan account. However, a Roth 403(b) can be rolled over into another Roth 403(b) or into a Roth IRA.
- Roth IRA and regular IRA accounts cannot be rolled over into a Roth 403(b) account.
- If your plan allows employer matching contributions, they must be made on a pre-tax basis, and taxes must be paid on the matching contributions and any earnings on those contributions upon distribution.
- A maximum of $23,000 ($30,500 for participants age 50 and over) in 2024 can be deferred to either a traditional pre-tax account or a Roth account, or a combination of both accounts.
- Income restrictions do not apply to the Roth 403(b) as they do to the Roth IRA. For 2024, contributions to Roth IRAs cannot be made by single taxpayers with incomes of $161,000 or more or by couples filing jointly with incomes of $240,000 or more.

Should You Consider a Roth?

Your personal situation, current tax rate and expectations of your future tax rate should guide your choice. With a Roth, you'll pay income tax on your contributions and enjoy tax-free distributions in retirement. That can make it a good option over a traditional plan if you expect your tax rate to be higher when you retire.

As you use the charts below to help weigh your options, consider whether it makes more sense for you to pay taxes now or later.

Be sure to carefully evaluate your individual tax situation, which may require the assistance of a qualified tax or financial advisor.

Assumption	Strategy	Best Option
Tax rate will be lower in retirement	Pay taxes later	Traditional, pre-tax plan
Tax rate will be higher in retirement	Pay taxes now	Roth plan
Tax rate will be the same	Pay taxes now or later	Both options produce same benefit

Comparing the Options

	Traditional Option (pre-tax)	Roth Option (after-tax)
2024 contribution limits	$23,000 (combined with any Roth contribution)	$23,000 (combined with any traditional, pre-tax contribution)
2024 catch-up limit (age 50 or older)	$7,500 (combined with any Roth contribution)	$7,500 (combined with any traditional, pre-tax contribution)[1]
Income limits	None	None
Employer match	May be provided	May be provided
Taxation at distribution	On contributions and earnings	No federal taxes on qualified distributions[2]
Required distributions	Age 73 or retirement, whichever comes later[3]	Age 73 or retirement, whichever comes later[4]

1 If you have more than 15 years of service with your current employer, you may be eligible for a catch-up contribution of a maximum of $3,000 annually, up to a lifetime maximum of $15,000.

2 A distribution is qualified if it has been at least five years since the first contribution and the participant is at least 59½, disabled or deceased.

3 If the retirement plan account is an IRA or the account owner is a 5 percent owner of the business sponsoring the retirement plan, the required minimum distributions (RMDs) must begin once the account holder is age 73, regardless of whether he or she is retired. If the account is a Roth IRA, there is no RMD.

4 Amounts contributed prior to 1987 do not have to be distributed until age 75.

Roth 403(b) or Traditional?

What's the Difference?

A traditional 403(b) plan is available to employees of public schools and certain nonprofit educational, religious and charitable organizations.

A Roth 403(b) plan has some similarities to its traditional cousin. However, contributions to Roth accounts are made after taxes are paid. After you reach age 59½ and five years have passed since your first Roth contribution, you can withdraw the money you contributed and any investment gains tax-free.

A Roth 403(b) account is subject to the contribution limits of a regular 403(b) account, allowing you to put away thousands of dollars more in retirement savings than you would through a Roth IRA alone.

Who Benefits the Most?

The Roth 403(b) option is not a good fit for everyone. The following types of people may benefit the most from contributing to a Roth:

Highly compensated employees will appreciate that the Roth IRA's income limits do not apply to Roth 403(b).

Young employees who are starting to climb the career ladder may find the idea of paying taxes on contributions now at a potentially lower tax rate to be more enticing than making pre-tax contributions to a traditional 403(b) and paying taxes later in their careers when they're likely to be making more money and in a higher tax bracket.

Individuals who foresee higher tax rates in the future may choose to pay taxes today as a hedge against higher taxes tomorrow.

Participants wanting control and flexibility in tax planning for retirement will appreciate being able to both:

- Split contributions between a traditional pre-tax account and a Roth account
- Choose to receive Roth distributions during times of higher taxation

Roth 403(b) Versus Roth IRA

The Roth 403(b) option is advantageous if you are a high-income individual who cannot contribute to a Roth IRA because of the income restrictions.

With a Roth IRA, eligibility phases out between $146,000 – $161,000 for single filers and between $230,000 – $240,000 for married couples filing jointly. With the Roth 403(b), there are no income restrictions.

In addition, Roth 403(b) accounts are subject to the contribution limits of traditional 403(b) accounts — $23,000 for 2024 or $30,500 for those 50 or older — allowing you to put away thousands of dollars more in retirement savings than you would through a Roth IRA alone.

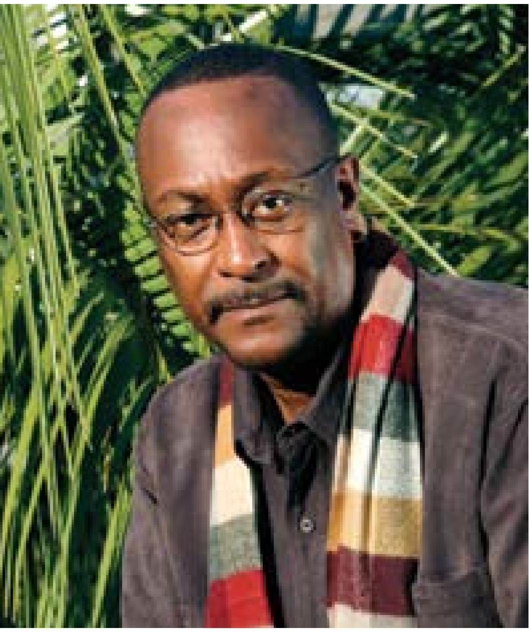
Other Important Considerations

Before you decide to contribute to a Roth 403(b), be aware of the following issues:

- Because of taxes, your net (take-home) pay will be less when you make a Roth contribution than when you make a traditional, pre-tax contribution of the same amount. That's because taxes on the Roth contribution are paid before you make the contribution. With a traditional, pre-tax contribution, you pay taxes when you withdraw the money.
- If you expect to be in a lower tax bracket at retirement than at present, you may find the traditional option to be a better choice.
- If you expect to be in a higher tax bracket at retirement than at present, you may find the Roth option to be a better choice.
- Required minimum distribution rules dictate that you must begin making withdrawals from your Roth 403(b) account at age 73 (exceptions may apply). If you want to preserve your assets, you can roll over Roth 403(b) assets into a Roth IRA when you retire. Roth IRAs are not subject to required minimum distribution rules.
- Qualified withdrawals from a Roth 403(b) account are not taxable income, which may help if you are seeking to lower taxes on your Social Security benefits in retirement.
- Roth account balances are included in calculating maximum loan amounts.

Sample Decision Scenarios

To help you with your retirement planning decision, we've included some hypothetical examples to illustrate how individuals may or may not be good candidates for contributing to a Roth 403(b) account. You will need to carefully evaluate your individual tax situation, which may require the assistance of a qualified tax or financial advisor.



Rob

Age: 44

Occupation: Director of a nonprofit organization

His salary: $55,000

Tax bracket: 12 percent

Filing status: Married filing jointly

Situation

Rob believes he will be in the same job or a similar one until retirement. He also estimates that he will be in the same tax bracket in retirement as he is now.

Does a Roth 403(b) offer advantages for Rob?

No. Because Rob expects to remain in the same tax bracket when he retires, there is no advantage or disadvantage for him to make Roth 403(b) contributions. The net amount in retirement will be the same to him — assuming Rob's current savings into a Roth will be reduced by taxes now — and the future amount in the traditional 403(b) will be reduced by taxes upon withdrawal. Saving in both Roth and traditional 403(b) accounts may be appropriate for Rob, allowing him to adjust his withdrawals based on his specific tax scenario in retirement.

Grace

Age: 40

Occupation: Teacher

Her salary: $49,000

Tax bracket: 22 percent

Filing status: Single

Situation

Flexibility is at the top of Grace's life priorities. When she retires, she wants the flexibility of choosing distributions from pre-tax or after-tax accounts depending on her financial needs and tax status.

Does a Roth 403(b) offer advantages for Grace?

Yes. Grace can divide her annual contribution between traditional and Roth 403(b) accounts and can use her Roth 403(b) account as a hedge against higher taxes in the future. When she retires, Grace can make withdrawals from her Roth 403(b) if the income tax rate is high; if the tax rate decreases or if she is in a lower tax bracket, Grace can make withdrawals from her traditional 403(b) account.

This information is not intended to provide tax or legal advice. Please consult a tax or legal professional as necessary.

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