



# *Maryland Supplemental Retirement Plans*

## *Detouring Your Taxes: Are You on the Right Road to Retirement?*



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# *Supplemental Retirement Plan Types*

## Which Route Should You Take?



- 457(b) - Deferred Compensation Plan
- 403(b) - Tax Deferred Annuity Plan
- 401(k) - Savings & Investment Plan
- 401(a) - State Match Plan

*\*Each plan is treated individually.  
You choose investments.*

# *Supplemental Retirement Plan Benefits*

- ✓ Payroll Deduction
- ✓ Tax Benefits
- ✓ Lower Investment Expenses
- ✓ Retirement Savings Consolidation



# *Plan Contributions*

- ✓ *Can be made by all State of Maryland active employees (including contractual)*
- ✓ *Must be made directly from payroll*
- ✓ *Are allowed regardless of your income level*



## **Pre-tax:**

Lowers your taxable  
income **Today!**

## **After-tax (Roth):**

Lowers your taxable  
income **in Retirement!**

# Tax Me *Now* or Tax Me *Later*?

ALTERNATE ROUTES AHEAD

## Pre-tax vs. After-tax (Roth)

*Depends on...*

- ✓ *Current income tax bracket*
- ✓ *Tax bracket in retirement*
- ✓ *Growth of assets over time*
- ✓ *When you plan to begin distributions from the account*
- ✓ *Desire to pass assets on to heirs*



## *You may want to consider making Roth contributions if you:*

- ✓ Expect to be in a higher tax bracket upon retirement
  - because you believe that tax rates will be higher when you retire, or
  - because you believe your income will be higher in retirement than it is currently
- ✓ Want to diversify your tax situation in retirement
- ✓ May not need all the assets in retirement
- ✓ Are looking for an estate planning tool to leave assets income tax-free to heirs.

# *Saver's Tax Credit*



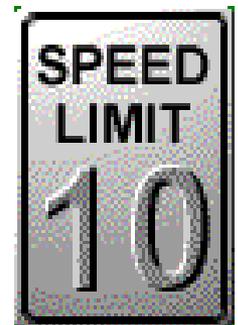
- ✓ A partially - refundable credit on the first \$2,000 in contributions.
- ✓ Credit ranges from 10 – 50% of contribution amount depending on adjusted gross income and filing status.

Filing Status	<b>Single</b>	<b>Married</b>	<b>Head of Household</b>
Adjusted gross income limit (2012)	\$28,750	\$57,500	\$43,125

# *What are the Contribution Limits?*

	Maximum Deferral Limit	Deferral limit plus Age 50 Catch-up	Special 457(b) Catch-up Deferral Limit
<b>YEAR 2012</b>	If you're less than age 50 this year, you may defer as much as...	If you're at least age 50 this year, you may defer as much as...	For the 3 years prior to your retirement year, you may defer as much as...
<b>Roth/Pre-tax 457(b)</b>	<b>Combined \$17,000</b>	<b>Combined \$22,500</b>	<b>\$34,000</b>
<b>Roth/Pre-tax 401(k) AND 403(b) Plans</b>	<b>Combined \$17,000</b>	<b>Combined \$22,500</b>	<b>\$22,500</b>
<b>TOTAL</b>	<b>\$34,000</b>	<b>\$45,000</b>	<b>\$56,500</b>

- ✓ Annual limits are the same for both kinds of contributions
- ✓ You may contribute to both at the same time, or alternately
- ✓ Minimum deferral- \$5/bi-weekly pay
- ✓ You may start, stop, increase or decrease your deferral at any time
- ✓ Increase every time you pay off major bills



# *Distribution Requirements*

## *(access to your Money)*



### 457

✓ You may begin distributions regardless of age, without penalty, upon separation from service

[No in-service distributions (exception for hardships)]

### 401(k), 403(b), 401(a)

✓ You may begin distributions without penalty, if separated from service in the calendar year that you turn 55 or later.

✓ You may begin distributions at 59½ without penalty if separation occurs before age 55

✓ You may begin in-service distributions at age 59 ½

[No in-service distributions for 401(a)]

Note: Distributions of Pre-tax Contributions will be taxable income.



# *Roth “Qualified” Distribution*

A “*qualified*” distribution (tax-free earnings for federal & Maryland taxes) occurs when distribution is withdrawn  
*five years after the year of the initial*  
Roth 401(k) or Roth 457(b) contribution,

**AND** the participant

## Roth 401(k)

- ✓ Attains age 59½, or
- ✓ Becomes Disabled, or
- ✓ Dies

## Roth 457(b)

- ✓ Separates from service  
**and** attains age 59½, or
- ✓ Becomes Disabled, or
- ✓ Dies



# *Conversions/Rollovers of Funds to Roth Accounts*

<p>“Conversion” of pre-tax 401k/457(b) funds</p>	<p>“Rollover” of Roth 401k/457(b)</p>
<p>A <i>distribution</i> from a pre-tax 401k/457(b) may be converted to a Roth 401k/457(b) arrangement. However, eligible distribution requirements must be met.</p>	<p>May be rolled over to another Roth 401(k)/457(b) or to a Roth IRA. If rolled to another Roth 401(k)/457(b), the five-year distribution rule counts from the year of the participant’s first Roth 401(k)/457 contribution. If rolled to a Roth IRA, the five-year distribution rule counts from the year the employee opened his/her first Roth IRA.</p>

**NOTE:** An after-tax contribution or rollover to a Roth 401(k)/457(b) arrangement is *irrevocable* – it cannot be reversed or re-characterized as a pre-tax amount.



# ***Roth 401(k)/457(b) Arrangement vs. Roth IRA***

<b>Item</b>	<b>Roth 401(k)/457(b) Arrangement</b>	<b>Roth IRA</b>
<b>2012 Individual Contribution Limit</b>	\$17,000 (combined with pre-tax 401(k) or 457(b) limits)	\$5,000
<b>Catch-up Limit 50 years +</b>	\$5,500	\$1,000
<b>Minimum Distribution Requirements</b>	Applies Distributions required to begin at the later of age 70½ or separation from service.	Does Not Apply
<b>First Time Home Buyer / Higher Education Exception</b>	Does Not Apply	Applies
<b>Income Limits</b>	Does Not Apply	Applies
<b>Loans</b>	Permitted, same as pre-tax	Not Permitted



# *Try the Roth Analyzer Tool at MarylandDC.com under Calculators*

## Roth vs. Traditional options

	Traditional (pre-tax)	Designated Roth (Current Tax Bracket: 15%)	Designated Roth (Current Tax Bracket: 25%)	Designated Roth (Current Tax Bracket: 35%)
Single contribution	\$10,000	\$10,000	\$10,000	\$10,000
Less federal taxes paid on contribution	\$0	\$1,500	\$2,500	\$3,500
Net total contribution	\$10,000	\$8,500	\$7,500	\$6,500
Value in 20 years	\$46,610	\$39,618	\$34,957	\$30,296
Less federal taxes at distribution (25% tax bracket)	\$11,652	\$0	\$0	\$0
Net distribution	\$34,957	\$39,618	\$34,957	\$30,296

These examples are hypothetical in nature and assume a 25% tax bracket at distribution. It also assumes that the retirement plan's value earns an average total return of 8% compounded annually. Investment return is not guaranteed and will vary depending upon the investments and market experience.

A single contribution of \$10,000 will be worth the same amount in 20 years if the tax bracket remains the same.

However, if the future tax rate is greater, the amount distributed from the Roth account will be greater than the post-tax amount distributed from the traditional 457(b) account.

# *Frequently Asked Questions*

- ✓ *Are Plan fees or investment choices different for Roth 401(k) or Roth 457(b) contributions?*

No. The fees and the investment choices are the same.

- ✓ *Since Roth 401(k)/457(b) contributions are made after tax, may I withdraw my Roth 401(k)/457(b) contributions at any time without paying taxes?*

No. You must meet the distributions requirements for your plan in order to take a withdrawal.

- ✓ *What happens if I take a non-qualified distribution from my Roth arrangement?*

The portion of your withdrawal attributable to your earnings would be taxable income.

# *Frequently Asked Questions*

✓ *Can I roll over my Roth IRA into my Roth 401(k)/457(b) arrangement?*

No. This is not permitted.

✓ *If I roll over a Roth 401(k)/457(b) arrangement into a Roth IRA, do I need to wait 5 years before distributions are tax-free?*

**Maybe.** A new 5-year clock begins the year the Roth 401(k)/457(b) balance is rolled over into a Roth IRA account. However, if before the rollover, you had an existing Roth IRA account that satisfied the 5-year requirement, then distributions from the rollover Roth IRA are immediately available on a tax-free basis assuming you are age 59½, disabled, or deceased. This is because the 5-year period for Roth IRAs begins the year the taxpayer first opened a Roth IRA.



# *How Can I Start Making Roth Contributions?*

- *If you want to redirect some or all of your future deferrals in an existing account to be Roth (after-tax), you simply need to do a deferral change.*
- *If you want to establish a new account for Roth (after-tax) deferrals, you need to do a new enrollment.*
  1. *Paper* - Complete the Participation Agreement or Deferral change today.

**OR**
  2. *Phone* – Call *Customer Service 1-800-545-4730 (no enrollments)*

**OR**
  3. *Web* – Logon to [www.MarylandDC.com](http://www.MarylandDC.com)

Still not sure if the Roth is for you?  
Meet with a Team MSRP Rep. today!

# *Let Knowledge Point You in the Right Direction*



- ✓ Maryland Supplemental Retirement Plans - 410-767-8740 or 1-800-543-5605
- ✓ Web Site: *[www.MSRP.maryland.gov](http://www.MSRP.maryland.gov)*
- ✓ Other Educational offerings:  
Financial Planning Seminar  
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