



Roth 457(b) and Roth 401(k) highlights

If you are or become a participant in the MSRP 457(b) and/or 401(k) Plan and you are actively employed by the state of Maryland, you may choose to make designated Roth 457(b) and/or 401(k) contributions.

- You may make Roth 457(b) and/or 401(k) contributions regardless of your income level.
- Contributions are made through payroll deductions just like your other MSRP account(s), except your Roth contributions are deducted “after-tax”.
- You may divide your 457(b) and/or 401(k) Plan contributions between Traditional and Roth accounts.
- You may select a different investment allocation for each 457(b) pre-tax, 457(b) Roth, 401(k) pre-tax, and 401(k) Roth contributions and account balances.
- For either the 457(b) or 401(k) plans, the total combined amount you may contribute into traditional (pre-tax) and Roth (after-tax) accounts is \$16,500 in 2011 (unless you will be at least age 50 in which case the annual contribution limit becomes \$22,000).
- You cannot recharacterize Roth assets after your initial designation of an after-tax contribution is made. A Roth 457(b) and Roth 401(k) contribution is irrevocable as an after-tax asset.
- Because your Roth 457(b) and/or 401(k) contribution is taxed differently, your Roth 457(b) and/or 401(k) contributions and any earnings are accounted for separately.
- Any matching employer contributions are always made on a pre-tax basis, regardless of whether you are contributing on a pre-tax or after-tax basis.
- Similar to traditional pre-tax 401(k) plan accounts, payout from a Roth 401(k) account may begin at 59½ or after retirement, whichever comes first. The difference is that no federal or Maryland income taxes are due on the earnings if 1) the Roth 401(k) account has been in existence for a five-year period (five-year period begins Jan. 1 of the year participant first makes a Roth 401(k) contribution into the plan) and 2) the participant is age 59½, or becomes disabled, or has died.
- Similar to traditional pre-tax 457(b) plan accounts, payout from a Roth 457(b) account may begin after separation from State service, regardless of age. The difference is that no federal or Maryland income taxes are due on the earnings if 1) the Roth 457(b) account has been in existence for a five-year period (five-year period begins Jan. 1 of the year participant first makes a Roth 457(b) contribution into the plan) and 2) the participant is age 59½ and has separated from service, or becomes disabled, or has died.
- Required minimum distributions (RMD) begin at age 70½, unless the Roth 457(b) or Roth 401(k) is rolled into a Roth IRA, which does not require minimum distributions, except to beneficiaries.

Note: Roth conversions

A Roth conversion feature will be added in the future so that any eligible distribution from the tax-deferred portion of the 401(k) plan may be converted to the Roth 401(k) at the participant’s direction. Likewise, any eligible distribution from the tax-deferred portion of the 457(b) plan may be converted to the Roth 457(b). As with a distribution to the participant, the conversion amounts become taxable in the year converted.

Tax-deferred eligible distributions

A payout from a 457(b) plan is an eligible distribution after the participant separates from State service, becomes disabled, or dies.

A payout from a 401(k) plan is an eligible distribution after the participant attains age 59½, or separates from service at age 55 or more, or becomes disabled, or dies.

Roth qualified distributions

Generally, a Roth account distribution is a qualified distribution if: 1) the Roth account has been in existence for a five-year period (five-year period begins Jan. 1 of the year a participant first makes a Roth contribution into the plan), and 2) a participant is age 59½, or has died or become disabled under IRC Section 72(m)(7). Distributions made prior to these requirements being met are non-qualified distributions, and earnings could be taxable.

Should you elect to establish a designated Roth account, the account will not be subject to federal or Maryland income taxes.

Other qualified retirement plans can differ, including fees and when you can access funds. Assets rolled over from another qualified plan may be subject to both surrender charges from the original plan and a 10% penalty tax if withdrawn before age 59½.

Investing involves market risk including possible loss of principal.

Call to get started today

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