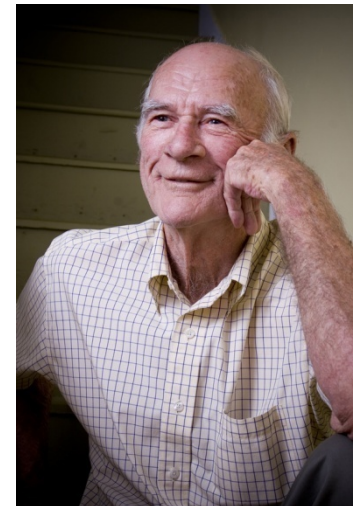




Maryland Supplemental Retirement Plans

Tax Me Now or Tax Me Later: Is the Roth for Me?

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What are Roth Contributions to 401(k) and 457(b) Plans?

Contributions that.....

- ✓ Can be made by all State of Maryland active employees (including contractual)
- ✓ Are made directly from payroll on an *after-tax* basis
- ✓ Allow for “qualified” distributions of contributions and earnings to be *federal & Maryland income tax-free*
- ✓ Are allowed regardless of your income level
(note: there is an income limit for a Roth IRA)



What are the Contribution Limits?

	Maximum Deferral Limit	Deferral limit plus Age 50 Catch-up	Special 457(b) Catch-up Deferral Limit
YEAR 2011	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...
Roth/Pre-tax 457(b)	Combined \$16,500	Combined \$22,000	\$33,000
Roth/Pre-tax 401(k) AND 403(b) Plans	Combined \$16,500	Combined \$22,000	\$22,000
TOTAL	\$33,000	\$44,000	\$55,000

- ✓ 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 amount at any time at no cost
- ✓ Increase every time you pay off major bills



What about Distributions?

Item:	Pre-tax money	Roth money
Distributions	<ul style="list-style-type: none"> • Distributions permitted: <div style="border: 1px solid black; border-radius: 15px; padding: 10px; margin: 10px 0;"> <p>If in the 401(k) plan -</p> <ul style="list-style-type: none"> * Attain age 59 ½, or * Separate from service in the calendar year that you turn age 55 or older, or <p>If in the 457(b) plan -</p> <ul style="list-style-type: none"> * Separate from service, or <p>In either plan -</p> <ul style="list-style-type: none"> • For an Unforeseen Emergency/Hardship, or • Become disabled, or • Upon Death </div>	
Required Minimum Distributions	<p>Required.</p> <p>Distributions required to begin at the later of age of 70 ½ or separation from service.</p>	<p>Required :</p> <p>Same as Pre-tax 401k/457(b) Contributions</p> <p><i>However, before minimum distributions begin, the participant can rollover the entire balance to a Roth IRA, which does not require minimum distributions. The Roth IRA accountholder can forgo taking distributions, allowing the Roth IRA to continue to accumulate tax-free, and ultimately be passed to heirs free from federal taxes.</i></p>



Roth Distribution

Same withdrawal rules as Pre-tax apply however...

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



Can I “rollover” my funds?

Item	Pre-tax 401(k)/457(b) Contributions	Roth 401(k)/457(b) Contributions
Rollover Options	<p>May be rolled over</p> <ul style="list-style-type: none"> -to another pre-tax 401(k) or pre-tax 457(b) plan or -to a Traditional IRA or -to a Roth IRA (taxable event) 	<p>May be rolled over</p> <ul style="list-style-type: none"> -to another Roth 401(k) or 457(b) plan or -to a Roth IRA. <p>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.</p> <p>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: A Roth deferral or rollover to a Roth 401(k)/457 arrangement is *irrevocable* - it cannot be reversed or re-characterized as a pre-tax amount.



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

Item	Roth 401(k)/457(b) Arrangement	Roth IRA
2011 Individual Contribution Limit	\$16,500 (combined with pre-tax 401(k) or 457(b) limits)	\$5,000
Catch-up Limit 50 years +	\$5,500	\$1,000
Minimum Distribution Requirements	Applies Distributions required to begin at the later of age 70½ or separation from service.	Does Not Apply
First Time Home Buyer / Higher Education Exception	Does Not Apply	Applies
Income Limits	Does Not Apply	Applies
Loans	Permitted, same as pre-tax	Not Permitted



How do I choose how to contribute?

Pre-tax vs. Roth After-tax

Depends on...

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



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.



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.



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.



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.



Frequently Asked Questions

- ✓ *Can I convert my pre-tax 401(k) or 457(b) arrangement to a Roth 401(k) or 457(b) arrangement?*

Yes. A distribution from a pre-tax 401k or 457(b) may be converted to a Roth 401(k) or 457(b) arrangement. However, the distribution requirements for your plan must be met.

NOTE: The conversion amounts become taxable in the year converted.

- ✓ *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.



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

Still not sure if the Roth is for you? Meet with an NRS Rep today!