

# Adding more flexibility with the Roth option



UTSaver 457(b) Deferred Compensation Plan:  
An opportunity for tax-free\* retirement income.

\* Qualifying conditions apply. Roth contributions must be held at least 5 years before date of distribution and you must be 59½ or older (assuming separation from service, death or disability).



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# The Roth 457(b) contribution option



“I’m ready  
to Roth.”



“I’m still  
more of a  
traditional  
type.”



“I’ll take  
both.”

## What are your options?

The University of Texas System has added a Roth option to the UTSaver 457(b) Deferred Compensation Plan (DCP) to give you even more flexibility. This option doesn’t change how much you can contribute. Nor does it change where you can invest. What it does is give you more control over when your contributions – and retirement income – will be subject to federal income tax.

If you choose to contribute to the Roth option, those contributions will be subject to income taxes before they’re invested in your DCP account. In exchange, you may be able to withdraw your contributions and any earnings tax-free when you retire.

In short, you’d be trading a current tax benefit for a future tax benefit. So does this trade-off make sense for you? It primarily depends on whether you think your federal income tax rate will be higher at retirement, or lower. Let’s take a closer look.

# When would you rather pay?

## Compare with making pre-tax DCP contributions

# Now

### Pay no income taxes

on contributions during your working years.

# Later

### Pay taxes

when you withdraw during retirement.

<b>Money going in: (contributions)</b>	Pre-tax contributions are deducted from your salary before taxes are taken. That can reduce your taxable income.
<b>Earnings, if any:</b>	Grow tax-deferred.
<b>Money coming out: (distributions)</b>	Distributions are taxable as current income when withdrawn. Distributions (contributions and earnings) are taxable as current income when withdrawn.
<b>Money moving on: (rollovers)</b>	Rollovers allowed to another traditional government retirement plan or IRA, including Roth IRAs.
<b>Required minimum distributions:</b>	If you are retired, required minimum distributions beginning at age 72.

## Whichever DCP option you choose, you'll get these key features.

- Investing convenience. You can put money aside using automatic payroll deductions.
- Investment flexibility. You can select from the same established investment options.
- Higher contribution limits. You can contribute more to your DCP account than you can in an IRA you set up on your own.

## Compare with making Roth after-tax DCP contributions

# Now

### Pay income taxes

on contributions as you make them.

# Later

### Withdraw savings tax-free

during retirement.

<b>Money going in: (contributions)</b>	After-tax contributions are subject to federal (and where applicable, state, and local) income tax withholding.
<b>Earnings, if any:</b>	Grow tax-free as long as certain qualifying conditions are met.
<b>Money coming out: (distributions)</b>	Tax-free distributions, as long as you've satisfied the five-year holding period and are age 59½ or older, or disabled or deceased.
<b>Money moving on: (rollovers)</b>	Rollovers allowed to another traditional government retirement plan or IRA, including Roth IRAs.
<b>Required minimum distributions:</b>	If you are retired, required minimum distributions beginning at age 72. However, you can roll over your Roth 457 to a Roth IRA, where minimum distributions are not required during your lifetime.

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This material is not intended to be used to avoid tax penalties, and was prepared to support the promotion or marketing of the matter addressed in this document. The taxpayer should seek advice from an independent tax advisor.

# So, which option is right for you?



## Jeff (Age 45):

### Wants current tax break

Jeff considers himself in his “peak” earning years. He knows he won’t be making this money forever, but wants to enjoy it while he can.

- Doesn’t think he can afford to lose another tax deduction at this point
- Doesn’t really like change anyway
- Expects tax rates to be lower when he retires



## Linda (Age 25):

### Wants long-term tax-free growth

Linda just got out of grad school and is embarking on her new career.

She feels good about the fact she’s already starting to build up her savings.

- Isn’t worried about the tax deduction now
- Confident her salary will increase over the years to come

Comparing Jeff’s options:		
	Pre-tax DCP	Roth After-tax DCP
Gross income	\$75,000	\$75,000
Annual salary available to save	\$10,000	\$10,000
Less taxes at 25% <sup>1</sup>	-\$0	-\$2,500
Net yearly contribution Totals over 20 years	\$10,000 \$200,000	\$7,500 \$150,000
Value at retirement (assumes 20 years of contributions at 6%)	\$378,900	\$284,200
Less taxes at 15% <sup>2</sup>	-\$56,800	-\$0
<b>After-tax value</b>	<b>\$322,100</b>	<b>\$284,200</b>
Considering: Pre-tax		

<sup>1</sup>Assumes current tax rate

<sup>2</sup>Assumes future tax rate

Comparing Linda’s options:		
	Pre-tax DCP	Roth After-tax DCP
Gross income	\$35,000	\$35,000
Annual salary available to save	\$3,000	\$3,000
Less taxes at 25% <sup>1</sup>	-\$0	-\$750
Net yearly contribution Totals over 40 years	\$3,000 \$120,000	\$2,250 \$90,000
Value at retirement (assumes 40 years of contributions at 6%)	\$478,200	\$358,700
Less taxes at 33% <sup>2</sup>	-\$159,500	-\$0
<b>After-tax value</b>	<b>\$318,700</b>	<b>\$358,700</b>
Considering: Roth after-tax		

<sup>1</sup>Assumes current tax rate

<sup>2</sup>Assumes future tax rate



There are many reasons why pre-tax, Roth after-tax, or a combination of both contributions types to your DCP account might be right for you. A lot depends on when you expect to be in a higher tax bracket – now or when you retire. You'll also need to factor in your current financial situation, future goals and personal attitudes as well.



## Wanda (Age 55):

### Wants tax flexibility now and in retirement

Wanda likes the idea of tax-free retirement income, but also likes her current tax deduction. And she doesn't have a clue where taxes are headed in the future.

- Is getting close to retiring, but not that close
- Wants the flexibility to optimize her tax strategy year-to-year as she withdraws retirement income
- Likes “hedging” her bets

#### Comparing Wanda's options:

	Pre-tax DCP	Roth After-tax DCP
Gross income	\$60,000	\$60,000
Annual salary available to save	\$6,000	\$6,000
Less taxes at 25% <sup>1</sup>	-\$0	-\$1,500
Net yearly contribution	\$6,000	\$4,500
Totals over 10 years	\$60,000	\$45,000
Value at retirement (assumes 10 years of contributions at 6%)	\$81,500	\$61,100
Less taxes at 25% <sup>2</sup>	-\$20,400	-\$0
After-tax value	\$61,100	\$61,100

#### Considering: Combination of Pre-tax and Roth After-tax DCP

<sup>1</sup> Assumes current tax rate

<sup>2</sup> Assumes future tax rate

**Note:** These are hypothetical illustrations for demonstration purposes only. They are not intended to (1) serve as financial advice or as a primary basis for investment decisions and (2) imply the performance of any specific security. Contributions are subject to Internal Revenue Code limits. Systematic investing does not ensure a profit nor guarantee against loss. Investors should consider their ability to invest consistently in up as well as down markets. This example does not represent any specific product, nor does it reflect sales charges or other expenses that may be required for some investments. After tax value of traditional 403(b) assumes a one time lump sum distribution.





# Does the Roth option make sense for you?

Answer the following questions. If you have more “Yes” answers than “No” answers, the Roth option may make sense. More “No” answers indicate that the pre-tax DCP may make more sense.

	Yes	No
Do you plan to work at least five more years before you retire?		
Do you think your tax rate will be higher by the time you retire?		
Are you willing to swap a current tax break for a longer-term tax benefit?		
Can you afford to save with more of your net salary now so you can contribute the same to your DCP account with Roth after-tax as you would with pre-tax money?		
Do you like the idea of diversifying your tax strategy?		
Are you focused on passing as much as possible to your heirs?		





# What else should I know?

A Roth qualified distribution must meet a two-prong test:

- A five-year holding period, and
- A distribution taken on or after age 59½, or should you become disabled (assuming you have separated from service) or deceased.

The five-year holding period determines when you can take tax-free income. The five-year rule means that your first Roth contribution to the UTSaver DCP must have been made at least five years before withdrawing it.

The longer you can leave your Roth contributions and earnings in the UTSaver DCP and the higher you expect your taxes to be in the future, the more you may be able to benefit from the tax-free income the Roth option can provide.

Making Roth contributions could potentially reduce your take-home pay since they won't reduce your current taxable income. Since you're paying taxes on a higher amount, it could reduce your take-home pay. See the example below.

	Pre-tax	Roth after-tax
Gross income	\$50,000	\$50,000
Pre-tax contribution	-\$5,000	N/A
Taxable Income	\$45,000	\$50,000
25% <sup>1</sup> income taxes	-\$11,250	-\$12,500
After-tax income	33,750	\$37,500
Roth after-tax contribution	N/A	-\$5,000
Take-home pay	\$33,750	\$32,500

<sup>1</sup> Assumes current tax rate

Making Roth after-tax contributions to your DCP account may also affect your ability to take other tax credits and deductions (for example, student loan deductions, medical expense deductions and child care tax credits). Whether or not you qualify for these tax credits and deductions depends on your income level. Since Roth after-tax contributions won't reduce your adjusted taxable income, that could affect your eligibility for these tax reductions.

## My income is too high to contribute to a Roth IRA. Can I make Roth after-tax contributions to the Plan?

Yes, you can make Roth contributions to your DCP account even if your income is too high to be able to contribute to a Roth IRA.

## Can I contribute to both the pre-tax and Roth after-tax DCP accounts?

Yes. You can contribute in the same year in any proportion you choose. The combined amount of all elective contributions must not exceed the annual deferral limit. Visit [voya.com/irslimits](http://voya.com/irslimits) for information on the annual deferral and catch-up contribution (for persons age 50 or older) limits for 457 Plans.

## Can I change or stop making Roth contributions at any time?

Yes. Log in to UTRetirement Manager to update your Roth contributions.

## I've made Roth contributions and have changed my mind. Can I change them to pre-tax contributions instead?

No. Once you have designated contributions as Roth, you cannot later change them to pre-tax.

## Are my Roth after-tax and pre-tax contribution sources kept separate?

Yes. Roth contributions are kept completely separate from your pre-tax contributions within the DCP.

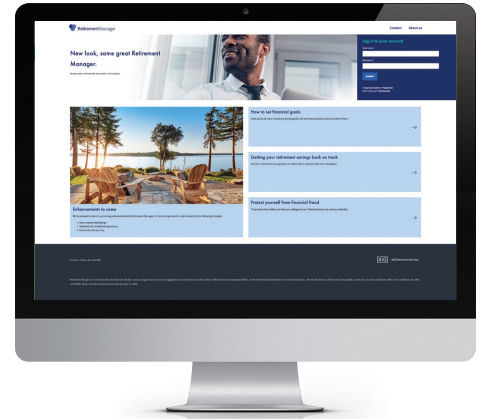
## Can I convert the pre-tax contributions I've made and their earnings to the Roth option?

Yes. You can convert part or all of your pre-tax DCP balance, including earnings, to the Roth account. This is called an "in-plan Roth conversion." You can convert part or all of your pre-tax contributions, pre-tax rollover contributions from qualified former employer plans, and their earnings. Generally, the amount you convert becomes part of your gross income for the tax year in which you convert it. Contact your UT dedicated Voya financial professional for more information.

# Ready to start making Roth contributions?

Log into UTRetirement Manager.

To start your Roth after-tax contributions today, log into [myretirementmanager.com](http://myretirementmanager.com) and update your DCP (457) contributions to add Roth. If you have any questions or would like to learn more, contact your UT dedicated Voya financial professional.



# Do you have questions about the UTSaver DCP?

Contact a Voya financial professional near you. Your local professional can help you understand how much you may need in retirement, how much you can save to help reach your retirement goals, and how to invest and manage your investment strategy along the way.

Voya's team of UT dedicated financial professionals\* are located at all UT campuses and health institutions across the state to serve you. Contact your local Voya financial professional toll-free at **(866) 506-2199** or email [retireready@voya.com](mailto:retireready@voya.com) to schedule a 1-on-1 review of your retirement planning and savings strategy. You can also visit [utsaver.com/voya](http://utsaver.com/voya) for more information about the UT System Retirement Program.



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