The Roth 403(b) and 401(k)

Things to consider with this savings opportunity

If your employer offers Roth contributions through your retirement plan, there are additional savings opportunities to consider. The Roth 403(b) or 401(k) option is an employee contribution source in addition to tax-sheltered and after-tax contributions. The type, or a combination of types, of contributions is yours depending upon what is best for your circumstances and retirement goals.

What are the benefits?

The overarching benefit of the Roth 403(b) and 401(k) (also known as Roth elective deferrals) is ultimately achieved at retirement. With the Roth elective deferrals, the money that you have accumulated through your retirement plan will be completely yours. Simply stated, there will be no federal income tax due (or state income tax in most cases) on your retirement nest egg (withdrawals must meet Qualified Distribution rules).

In a traditional 403(b) or 401(k), distributions will be subject to income taxes in the year that you receive your retirement savings.

How much can I contribute?

In 2011, you can potentially contribute up to $25,000 as follows:

$16,500, plus
$5,500 if you are age 50+, plus
$3,000 if you are eligible to use the 15+ years of service increase.

GuideStone can help with these calculations. Please contact us at **1-888-98-GUIDE** (1-888-984-8433) for assistance in determining your contribution limits.

Remember, Roth 403(b) or 401(k) contributions are subject to up-front income tax withholding, while tax-sheltered contributions are not subject to federal (or state in most cases) income tax withholding.

What about distributions?

Distributions from a Roth 403(b) or 401(k) are tax-free for federal income tax purposes (state tax rules vary by state) provided they are Qualified Distributions. A Qualified Distribution must meet the following criteria:

1. The funds must be held for a five-year period, dating from the earlier of:
   a. The first year that you contribute to any Roth 403(b) or 401(k) account in your employer's plan or,
   b. If a Roth rollover contribution is made, the first taxable year you made a designated Roth contribution to the other applicable retirement plan.
2. The distribution must be made after you have reached age 59½, are disabled, or made to your beneficiary(ies) after your death.

Conversely, distributions from a traditional 403(b) or 401(k) are taxed at ordinary income tax rates in the year the money is received.

How does the Roth 403(b) or 401(k) compare to a Roth IRA?

- You can contribute more money to a Roth 403(b) or 401(k) than to a Roth IRA. In 2011, the basic contribution limit for the Roth 403(b) or 401(k) is $16,500 compared to a Roth IRA which has a basic contribution limit in 2011 of $5,000.

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- The Roth 403(b) or 401(k) does not have the income limitations for eligibility that apply to a Roth IRA.
- There are no required minimum distributions in the Roth IRA, while those distributions do apply to the Roth 403(b) or 401(k) (the later of age 70½ or the date you stop working for your employer).
- While you can withdraw Roth IRA contributions at any time, withdrawals from a Roth 403(b) or 401(k) must be considered a qualified distribution in order to avoid potential tax consequences.

Before you choose consider:

Are you willing to pay taxes today for tax-free distributions in the future? Can you afford a reduction in take-home pay in order to contribute the same amount to your Roth 403(b) or 401(k)? Do you expect to be in a higher tax bracket in retirement? All of these are important factors to consider. Use the checklist below to help you decide which type of contribution may be right for you.

Roth 403 (b) contributions may be right for me if:	Tax-sheltered (pre-tax) contributions may be right for me if:
Tax considerations:	
❑ I expect that my total retirement income from all sources will place me in a higher tax bracket when I stop working.	❑ I expect that my total retirement income, plus Social Security will place me in a lower tax bracket in retirement.
❑ I can afford less immediate take-home pay for the benefit of having a tax-free income source at retirement.	❑ I need as much immediate take-home pay as possible now, even if that means paying taxes on my savings later.
Personal perspective:	
❑ In addition to my retirement plan, I will have multiple sources of income at retirement (personal savings, spouse's retirement plan, etc.).	❑ Aside from a potential inheritance, my retirement plan will be my primary source of income in retirement.
❑ I will work part-time in retirement because I wish to stay active, without regard for income needs.	❑ I will likely need to delay retirement or continue to work during retirement in order to supplement my income.
❑ I plan to draw on benefits from a pension plan at retirement.	❑ A significant portion of my retirement income will come from Social Security.
Looking ahead:	
❑ I expect with some certainty that I will attain future career and salary advancement.	❑ I will maintain a stable employment track with basic cost-of-living increases over my career.
❑ My place of residence will be paid off by retirement age.	❑ I will likely maintain a mortgage or renters' expenses through retirement.
❑ It is realistic for me to plan on more income during retirement than during my working years.	❑ Saving while working is difficult for me and my spouse.

Your responses above can help you better understand if Roth contributions are right for your unique situation. If you are mixed in your responses above, you may wish to contribute to your plan using both "pre-tax" and Roth or "after-tax" sources. Please consult your tax advisor for assistance with this and other tax considerations.

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