



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 Roth source can be utilized on its own, or as part of a combination of sources, depending on what is best for your unique needs and 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. Roth contributions are subject to federal income tax withholding before they enter your retirement account. However, their earnings grow tax-free, and qualified distributions from Roth contributions are not subject to federal income taxes (or state income taxes in most cases) when you receive your retirement savings in the future.

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 2017, you can potentially contribute up to \$27,000 as follows:

\$18,000, plus
\$6,000 if you are age 50 or older,
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 until distributed.

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 5-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 or are disabled or must be 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 2017, the basic contribution limit for the Roth 403(b) or 401(k) is \$18,000 compared to a Roth IRA, which has a basic contribution limit in 2017 of \$5,500.

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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 and are subject to the same distribution restrictions as traditional 403(b) or 401(k) contributions (not available until termination of employment, death, disability or reaching age 59½).

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

GuideStone Financial Resources does not provide legal or tax advice. Please consult with qualified legal and tax advisors for specific details and projections relating to your income tax and retirement planning questions or before executing any document with legal or tax implications. The information provided here is for general informational purposes only and should not be considered an individual recommendation or personalized investment or tax advice.

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