Roth Contribution Option

Which is right for you? Learn more about your options.

The Roth contribution option in the CalPERS 457 Plan gives you more flexibility when saving for retirement. This option doesn't change how much you can contribute or where you can invest it. What it does is give you more control over when your contributions, and retirement income, will be subject to federal income tax.

Unlike the pre-tax contributions made to the traditional CalPERS 457 Plan, Roth contributions are made on an after-tax basis. This means your Roth contributions are taxed before they're invested in your CalPERS 457 Plan account.

In exchange for paying taxes now, you may be able to withdraw your Roth contributions and any earnings tax-free when you retire (qualifying factors apply). That could mean more retirement income. You're trading a current tax benefit for a future tax benefit, but does this trade-off make sense for you? It primarily depends on whether you think your federal income tax rate will be higher or lower at retirement.

Let's take a look at how it works.

	Traditional 457 Plan (Pre-Tax)	Roth 457 Option (After-Tax)
Now:	Pay no income taxes on contributions	Pay income taxes on contributions as you make them
Later:	Pay taxes when withdrawn during retirement	Withdraw savings tax-free during retirement
Money going in:	Contributions are deducted from your salary before taxes are taken, which can reduce your taxable income	Contributions are subject to federal (and state or local, where applicable) income tax withholding
Earnings, if any:	Tax-deferred until withdrawn	Tax-free as long as certain qualifying conditions are met
Money coming out:	Distributions are taxable as current income when withdrawn	Tax-free, as long as you've satisfied the five-year holding period and are age 59½ or older (if separated from service), disabled (if separated from service), or deceased
Money moving on:	Rollovers allowed to another Traditional government retirement plan or IRA, including Roth IRAs	Rollovers allowed to another Roth government retirement plan or IRA
Required Minimum Distributions (RMD)	Distributions begin the later of age 73 or retirement. An IRS penalty tax applies to any RMD amount not taken in a timely manner	RMDs of Roth after-tax money are not required.

This material is not intended to be used to avoid tax penalties. The taxpayer should seek advice from an independent tax advisor.

Which option may be right for you?

There are different reasons why the Traditional CalPERS 457 Plan, the Roth after-tax option, or a combination of both may be best for you. It depends on several factors, like if you are in a higher tax bracket now or expect to be when you retire. You'll also need to consider your current financial situation, future goals and other personal factors.

Jeff (Age 45)

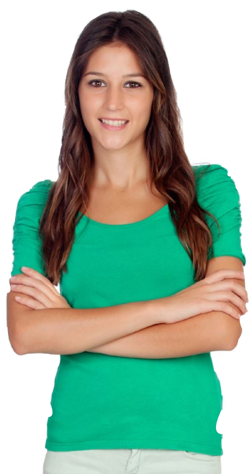
- In his "peak" earning years
- Wants a current tax break
- Can't afford to lose a tax deduction right now
- Expects to be in a lower tax bracket when he retires

Comparing Jeff's options:	Traditional 457 Plan (Pre-Tax)	Roth 457 Option (After-Tax)
Gross Income:	$75,000	$75,000
Annual Salary Available to Save:	$10,000	$10,000
Less Taxes at 25%:	**-$0**	**-$2,500**
Net Yearly Contribution:	$10,000	$7,500
Total Contributed Over **20 Years**	$200,000	$150,000
Contribution Value at Retirement (assuming 6% return)	$378,572	$283,929
Less Taxes at 15%	**-$56,786**	**-$0**
After-Tax Value	**$321,786**	**$283,929**

▶ Considering **Traditional 457**

Linda (Age 25)

- Wants long-term tax-free growth potential
- Isn't worried about tax deductions now
- Confident her salary will increase in the coming years
- Expects to be in a higher tax bracket when she retires than she is now



Comparing Linda's options:	Traditional 457 Plan (Pre-Tax)	Roth 457 Option (After-Tax)
Gross Income:	$35,000	$35,000
Annual Salary Available to Save:	$3,000	$3,000
Less Taxes at 15%:	**-$0**	**-$450**
Net Yearly Contribution:	$3,000	$2,550
Total Contributed Over **40 Years**	$120,000	$102,000
Contribution Value at Retirement (assuming 6% return)	$477,811	$406,140
Less Taxes at 33%	**-$157,678**	**-$0**
After-Tax Value	**$320,134**	**$406,140**

▶ Considering **Roth 457**

Wanda (Age 55)

- Seeks tax flexibility now and in retirement
- Likes the idea of tax-free retirement income, but also likes her current tax deduction
- Does not know if her future tax bracket will be higher or lower
- Wants to optimize her tax strategy year-to-year as she withdraws retirement income

Comparing Wanda's options:	Traditional 457 Plan (Pre-Tax)	Roth 457 Option (After-Tax)
Gross Income:	$60,000	$60,000
Annual Salary Available to Save:	$6,000	$6,000
Less Taxes at 25%:	**-$0**	**-$1,500**
Net Yearly Contribution:	$6,000	$4,500
Total Contributed Over **10 Years**	$60,000	$45,000
Contribution Value at Retirement (assuming 6% return)	$81,389	$61,041
Less Taxes at 25%	**-$20,347**	**-$0**
After-Tax Value	**$61,041**	**$61,041**

▶ Considering **Combination of Traditional 457 and Roth 457**

Does the CalPERS 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 pre-tax saving with the Traditional CalPERS 457 Plan may make more sense.

- ◯ Yes ◯ No **Do you plan to work at least five more years before you retire?**
- ◯ Yes ◯ No **Do you think that your tax rate will be higher than it is now by the time you retire?**
- ◯ Yes ◯ No **Are you willing to swap a current tax break for a longer-term tax benefit?**
- ◯ Yes ◯ No **Are you focused on passing as much as possible on to your heirs?**

What else should I know?

- A Roth qualified distribution must meet a two-prong test:
  - A 5-year holding period, and
  - A distribution taken on or after age 59½ (assuming you have separated from service), or should you become disabled (assuming you have separated from service) or deceased.
- The 5-year holding period determines when you can take tax-free income. The 5-year rule means that your first Roth contribution to the CalPERS 457 Plan must have been made at least five years before withdrawing it.
- The longer you can leave your Roth contributions and earnings in the CalPERS 457 Plan 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 CalPERS 457 Plan Roth option can provide.
- Making Roth contributions could potentially reduce your take-home pay since they won't reduce your current taxable income. See the example below.

Gross Income:	**$50,000**	**$50,000**
Traditional 457 Plan Contribution	-$5,000	N/A
Taxable Income	**$45,000**	**$50,000**
25% Income Taxes	-$11,250	-$12,500
After-Tax Income	$33,750	$37,500
Roth Contribution	N/A	-$5,000
Take-Home Pay	**$33,750**	**$32,500**

- Contributing on a Roth after-tax basis may also affect your ability to take other tax credits and deductions that depend on your income level. Since Roth contributions won't reduce your adjusted taxable income, that could affect your eligibility for these tax reductions.

Ready to make a change?

Making changes to your CalPERS 457 Plan pre-tax or after-tax contributions is easy. First, confirm that your employer can process your Roth contribution from their payroll to the CalPERS 457 Plan. Then visit **calpers457.com** to download and complete the ***Participant Change Authorization Form***, get your employer's signature, and return it as directed on the form.

Ready to enroll?

First confirm with your employer that they can process Roth contributions from their payroll before beginning the enrollment process. You can then visit **calpers457.com** and click ***Enroll Now*** to enroll in the CalPERS 457 Plan online or download and complete the forms in the ***Participant Enrollment Kit***.

For more information

Visit: **calpers457.com**

Call: **800-260-0659, option 2**
weekdays between 6:00 a.m. – 5:00 p.m. PT,
excluding stock market holidays.

Schedule a personal phone appointment with your dedicated Account Manager at a time of your choice.

- **calpers457.timetap.com**
- **888-713-8244**

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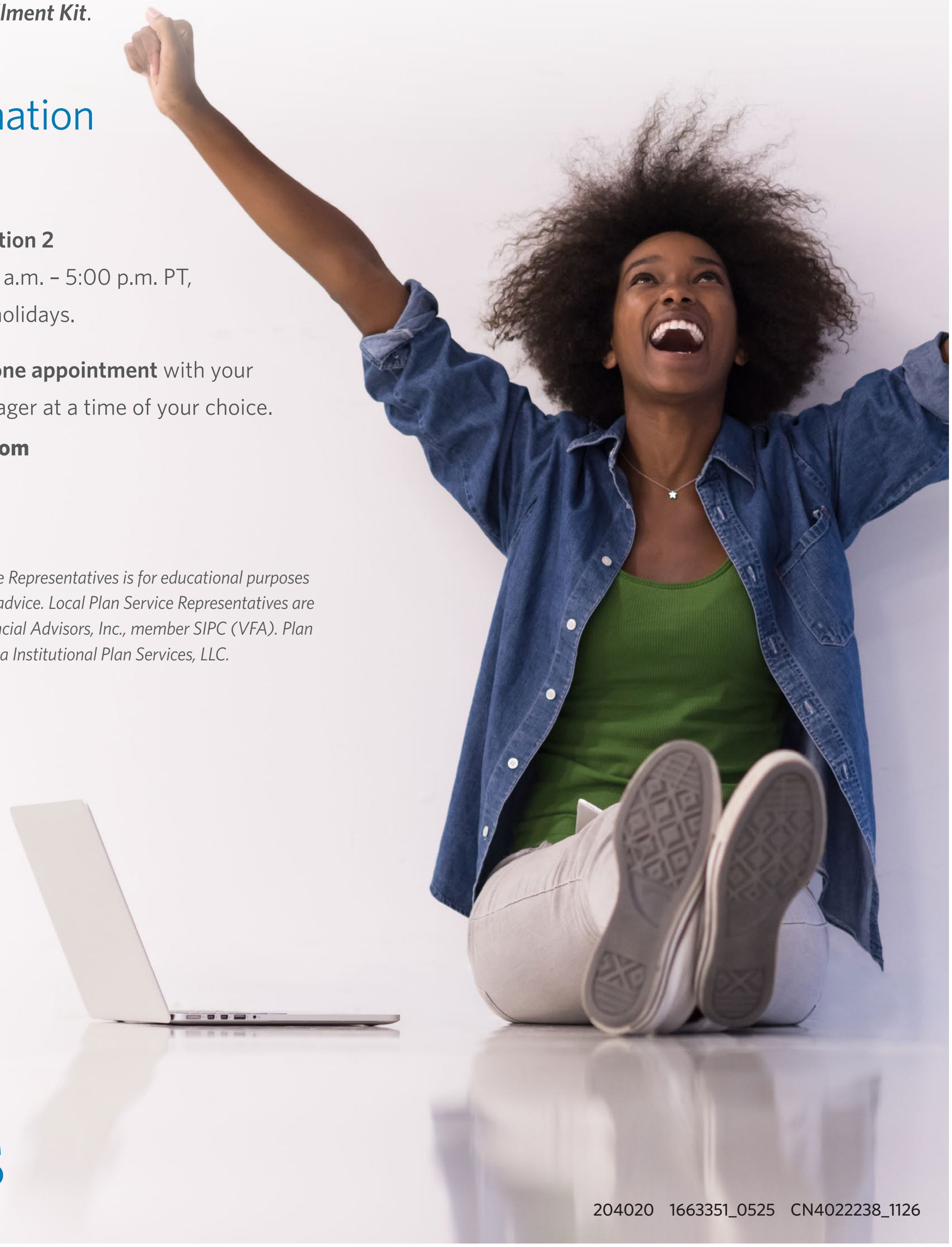

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