



# Roth 403(b) Plans

## What You Need to Know

Roth 403(b) contributions, available in 2006, resemble pre-tax 403(b) deferrals. One of the main differences is that Roth 403(b) contributions are after-tax contributions rather than pre-tax contributions. Your employer has decided to add a Roth 403(b) option to your 403(b) plan. So, you will be able to contribute to both plan accounts – the pre-tax 403(b) and the Roth 403(b) account. Based on many considerations, you will need to decide how these contribution options will best fit your retirement savings and distribution goals. The following information covers many of the commonly asked questions about Roth 403(b) contributions and pre-tax 403(b) deferrals.

**Q. What is the difference between Roth 403(b) contributions and pre-tax 403(b) deferrals?** Roth 403(b) contributions are similar to pre-tax 403(b) deferrals in that you may elect to contribute a portion of your current wages into a 403(b) plan. While in most states pre-tax 403(b) deferrals are deducted from your taxable wages, Roth 403(b) contributions are included in your taxable wages. Pre-tax 403(b) deferrals plus earnings are taxed as income at withdrawal while Roth 403(b) contributions plus earnings are free from income tax at withdrawal, provided the Roth 403(b) distribution is “qualified” as described in the “Distributions” section.

**Q. Will my plan offer both pre-tax 403(b) and Roth 403(b) contributions?** Yes, your 403(b) plan will allow you to contribute pre-tax 403(b) deferrals, Roth 403(b) contributions or a combination of both pre-tax 403(b) deferrals and Roth 403(b) contributions.

**Q. Are there income restrictions on making Roth 403(b) contributions?** No, unlike Roth IRAs, you may make Roth 403(b) contributions regardless of your annual income. In addition, employees eligible to make Roth IRA contributions may also make Roth 403(b) contributions during the same tax year.

**Q. What is the maximum Roth 403(b) contribution that I may contribute during calendar year 2010?** Pre-tax 403(b) deferrals and Roth 403(b) contributions are subject to a combined dollar limit maximum (\$16,500 for the 2010 tax year) under Internal Revenue Code section 402(g). So, Roth 403(b) contributions do not increase the amount you may contribute to a 403(b) plan; rather, you may only change the taxable nature of your 403(b) deferrals.

**Q. Are my pre-tax 403(b) deferral account balances eligible for conversion to Roth 403(b) account balances?** No, unlike IRAs, pre-tax 403(b) deferral account balances may not be converted into Roth 403(b) account balances.

### Contributions

**Q. How often may I change my Roth 403(b) contribution election?** You may change your Roth 403(b) contribution election whenever your plan allows for pre-tax 403(b) deferral changes. However, once you decide that a contribution will be Roth or pre-tax and that contribution is made to the plan, you may not change that contribution. You may change your election for future contributions only.

**Q. May I make Roth 403(b) catch-up contributions?** Yes, if you are eligible to make catch-up contributions, you may contribute Roth 403(b) catch-up contributions. Participants who will be age 50 or older by the end of the calendar year are eligible to make a catch-up contribution (\$5,500 for the 2009 tax year). Roth 403(b) and pre-tax 403(b) catch-up contributions may not, in combination, exceed the annual catch-up limit (\$5,500 in 2009). The catch-up contributions will mirror the participant's current designation of non-catch-up contributions in determining the allocation of catch-up contributions between Roth 403(b) and pre-tax 403(b).

## **Rollovers**

**Q. Are Roth 403(b) account balances eligible for rollover?** Yes, with some restrictions. Roth 403(b) account balances may only be rolled over to another qualified plan that accepts Roth 403(b) contributions or to a Roth IRA.

**Q. May a Roth 403(b) account from my previous employer be rolled over into my current plan?**

You are able to roll Roth 403(b) account balances into your plan by direct rollover only if other rollovers are currently allowed into your plan. You will be responsible for providing the Association with the first contribution date and cost basis of the Roth 403(b) account you are rolling over into your plan.

**Q. Are Roth IRAs eligible for rollover into Roth 403(b) accounts?** No, Roth IRA accounts may not be rolled into Roth 403(b) accounts.

## **Distributions & Loans**

**Q. May I withdraw my Roth 403(b) balance, including earnings, from the plan?** Yes, but your Roth 403(b) contributions have the same distribution restrictions as pre-tax 403(b) deferrals. So, your Roth 403(b) contributions may be withdrawn only upon retirement, death, disability or severance of employment. Your Roth 403(b) contributions may also be eligible for in-service withdrawals at age 59 ½ or in the event of hardship, if such features are available under your plan. Please be certain to consider the taxability of Roth 403(b) contributions and earnings discussed in the next question.

**Q. Under what circumstances may my Roth 403(b) account balance be withdrawn tax-free?** Earnings on your Roth 403(b) contributions may be disbursed tax-free provided the distribution is a "qualified" distribution. Your Roth 403(b) account distributions will be qualified if the distribution occurs after:

- you have attained age 59 ½, become disabled or die

### **AND**

- a five-year holding period, which begins on the first day of the calendar year in which you make your first Roth 403(b) contribution. If you make a direct rollover of a distribution from one Roth 403(b) plan to another Roth 403(b) plan, the five-year period in the recipient plan dates back to the first day of the period in the distributing plan, if this date is earlier.

**Q. Is my Roth 403(b) account subject to the required minimum distribution (RMD) regulations?**

Yes, unlike Roth IRAs, Roth 403(b) accounts are subject to the same RMD regulations as pre-tax 403(b) account balances and other qualified retirement plan balances. In general, RMD regulations require participants to begin receiving annual minimum distributions soon after attaining age 70 ½.

**Q. If I apply for a plan loan, will my Roth 403(b) contributions be included in the amount available for a loan?** Depending on your plan, your Roth 403(b) contributions may be included for purposes of determining the amount you may borrow from the plan.

## Your Account

**Q. How will Roth 403(b) contributions be reflected in my account?** When you access your account at M&I, we will list Roth 403(b) contributions and any Roth 403(b) rollover accounts separately from other contribution types. Your M&I statement will also list Roth 403(b) accounts separately.

## What This Means to You

**Q. Should I contribute to a Roth 403(b) or a regular pre-tax 403(b)?** There is no easy answer to this question. The answer will depend on your individual circumstances and there are many factors for you to consider including:

- Your current and projected income tax brackets
- How much you can afford to save
- The length of time until you retire
- The timing of any anticipated withdrawals
- The impact of switching from pre-tax to Roth on your tax bracket and the applicability of the alternative minimum tax
- The availability of Manse allowance

We recommend that you review your tax return and consult a tax advisor to determine which contribution option is best for you.

**Q. How will Roth 403(b) contributions affect my take-home pay?** Generally, if you make Roth 403(b) contributions in the same amount as your pre-tax 403(b) deferrals, your take-home pay will go down. Take a look at the example below where we assume a participant who is making a 6% pre-tax 403(b) deferral decides to make a 6% Roth 403(b) contribution instead. His/her annual take-home pay goes down by selecting Roth.

Note the assumptions shown in the chart below. The specific impact on your take-home pay will depend on your individual wages, contribution rate and income tax bracket.

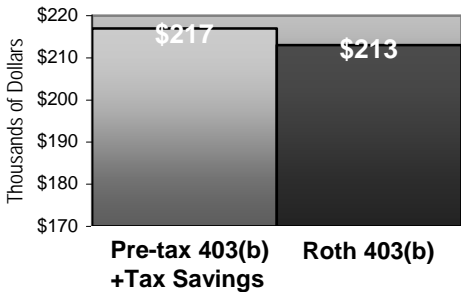
	Pre-tax 401(k)	Roth 401(k)
<b>Annual Wages</b>	<b>\$30,000</b>	<b>\$30,000</b>
<b>6% Pre-Tax 401(k) Deferral*</b>	<b>-\$1,800</b>	<b>\$0</b>
<b>Annual Taxable Wages, after Deferrals*</b>	<b>\$28,200</b>	<b>\$30,000</b>
<b>Less Federal Taxes*</b>	<b>-\$4,230</b>	<b>-\$4,500</b>
<b>Roth 401(k) Contribution*</b>	<b>\$0</b>	<b>-\$1,800</b>
<b>Net Annual Wages</b>	<b>\$23,970</b>	<b>\$23,700</b>

\*Assumes same contribution amount whether Roth 403(b) or pre-tax 403(b) and 15% federal tax rate. Impact of exemptions, other tax deductions and state or local taxes have not been considered in this example.

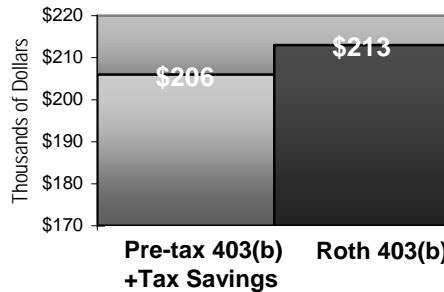
**Q. How will Roth 403(b) contributions affect my 403(b) retirement plan balance?** Assuming you make the same level of contribution as shown in the example above, here are some examples of the potential impact to your account using different tax rate assumptions.

<i>Assumptions</i>			
<b>Current age</b>	35	<b>Age of retirement</b>	65
<b>Annual contribution</b>	\$1,800	<b>Expected rate of return</b>	8%
<b>Years until retirement</b>	30	<b>Total contributions</b>	\$54,000

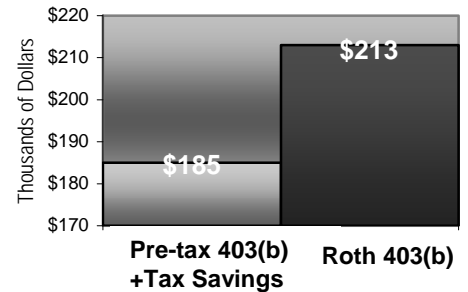
**Current tax rate** 15%  
**Retirement tax rate** 10%



**Current tax rate** 15%  
**Retirement tax rate** 15%



**Current tax rate** 15%  
**Retirement tax rate** 25%



*Note: The examples refer to "tax savings," which is the amount you may accumulate on an after-tax basis outside the plan if you invest the tax savings you get by making pre-tax 403(b) deferrals.*

For a personalized comparison of pre-tax 403(b) deferrals and Roth 403(b) contributions, go to [miretirement.com](http://miretirement.com) and select "Roth 403(b) Calculator" in the *Tools & Calculators* section. If you are a participant, a more comprehensive "Roth 403(b) Analyzer" is available after you log in to Account Access. Go to the *Resources* tab, select *Calculator Tools*, and click on "Roth 403(b) Analyzer" in the *Savings* section.

**Q. If I have decided to make Roth 403(b) contributions, how do I change my current election?**  
Follow your plan's procedure for pre-tax 403(b) contribution election changes.

*This information is not intended to be nor should it be treated as legal, tax or accounting advice. Taxpayers should seek advice from an independent tax advisor prior to acting on any of the information listed above since additional issues could exist that would affect the tax treatment of a specific transaction.*

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