# Roth 457(b) – New in 2013

Minneapolis
City of Lakes

**Pre-Tax Contributions vs. After-Tax Contributions**

**Pre-Tax Contributions:** Pre-tax contributions to your MNDCP account means taxes aren't withheld when you contribute. Instead, you pay ordinary income tax on both the contributions and earnings at the time you withdraw your money. This tax-deferral means more money goes into your MNDCP account than comes out of your paycheck.

- No taxes on contributions
- Taxes paid when withdrawn

**After-Tax Contributions:** The Roth option provides an alternative to pre-tax investing. Roth contributions are considered "after-tax," which means taxes are withheld when you contribute. However, qualified distributions on your contributions plus any earnings are completely tax-free.

- Taxes paid on contributions
- Tax-free withdrawals

**Key Benefits on Pre-Tax Contributions and After-Tax Contributions**

- **Investing Convenience:** you can put money aside using automatic payroll deductions.
- **Investment Flexibility:** You can select from the same menu of investment options
- **Higher Contribution Limits:** You can contribute more in your MNDCP account than you can in an Individual Retirement Account (IRA)

Starting in 2013, The City of Minneapolis is introducing a new savings opportunity through the Minnesota Deferred Compensation Plan (MNDCP). In addition to the pre-tax savings that MNDCP offers, you will now have the opportunity to save on an after-tax basis through Roth contributions.

## More information on Roth 457 (b)

- **Contributions** – Roth contributions are subject to federal, and where applicable, state and local income tax withholding.
- **Earnings, if any** – Are tax-free as long as qualifying conditions are met (see Roth-qualified Distributions).
- **Roth-qualified Distributions –**Are tax-free as long as you've satisfied the 5 year holding period and are age 59 ½ or older (assuming you have separated from service, are disabled, or distribution is made to your beneficiary(ies) after your death).
- **Rollovers –** Are allowed to another Roth account in a 457(b), 403(b), 401(k), 401(a) or Roth IRA. (Rollovers to plans other than a governmental 457(b) may be subject to the IRS 10 percent early withdrawal penalty tax).
- **Required Minimum Distributions –** The IRS requires minimum distributions to begin at the later of age 70 ½ or retirement. However, if you roll over your MNDCP Roth balance to an ROTH IRA before the calendar year in which you reach age 70 ½, minimum distributions are not required. In this scenario, determine if Roth is appropriate for estate planning purposes.

## Employees will benefit who:

- Expect to be in a higher tax bracket in retirement
- Are in a low tax bracket today or have other large tax deductions
- Want tax-free withdrawals in retirement
- Want the option of not taking required withdrawals at age 70 ½ (if you roll over to a Roth IRA). In this scenario, determine if a Roth is appropriate for estate planning purposes.
- Exceed the Roth IRA income limitations (there are no income limits if you contribute Roth dollars to your MNDCP account).

## Next Steps

Employees can enroll in a deferred compensation plan through MNDCP at any time of the year. Visit www.mndcplan.com or call 1-800-657-5757 for questions and to receive information.