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A NEW ROUTE TO RETIREMENT

Roth 457





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NRM-8401AO.9 (01/18)

Traditional vs. Roth 457

Traditional 457:

- Pre-tax contributions
- Tax-deferred growth
- Contributions and earnings taxed upon withdrawal

Roth 457:

- After-tax contributions
- Tax-deferred growth
- Tax-free withdrawal of contributions and earnings*

**Contributions and earnings distributed from a Roth 457 account are not taxable if the distribution is made after five consecutive tax years since the first Roth contribution was made to the Roth 457 account and the distribution is made after age 59^{1/2}, or because of death, or disability.*

Key differences between plan types

| | Traditional 457 Plan | Roth 457 | Roth IRA |
|--|-------------------------|-------------|-------------|
| 2018 contribution limit | Combined \$18,500 | | \$5,500 |
| Age 50+ catch-up limit | Combined \$6,000 | | \$1,000 |
| Contributions taxable in year contributed? | No | Yes | Yes |
| Contributions taxable in year distributed? | Yes | No | No |
| Earnings taxable in year distributed? | Yes | No* | No* |
| Contribution amount determined by your income? | No | No | Yes |

**Contributions and earnings from a Roth are not taxable if the distribution is made after five consecutive tax years since the first Roth contribution was made AND the distribution is made after age 59½, or because of death or disability, or a qualified first-time home purchase for Roth IRA.*

Source <https://www.irs.gov/uac/newsroom/irs-announces-2017-pension-plan-limitations-401k-contribution-limit-remains-unchanged-at-18000-for-2017>

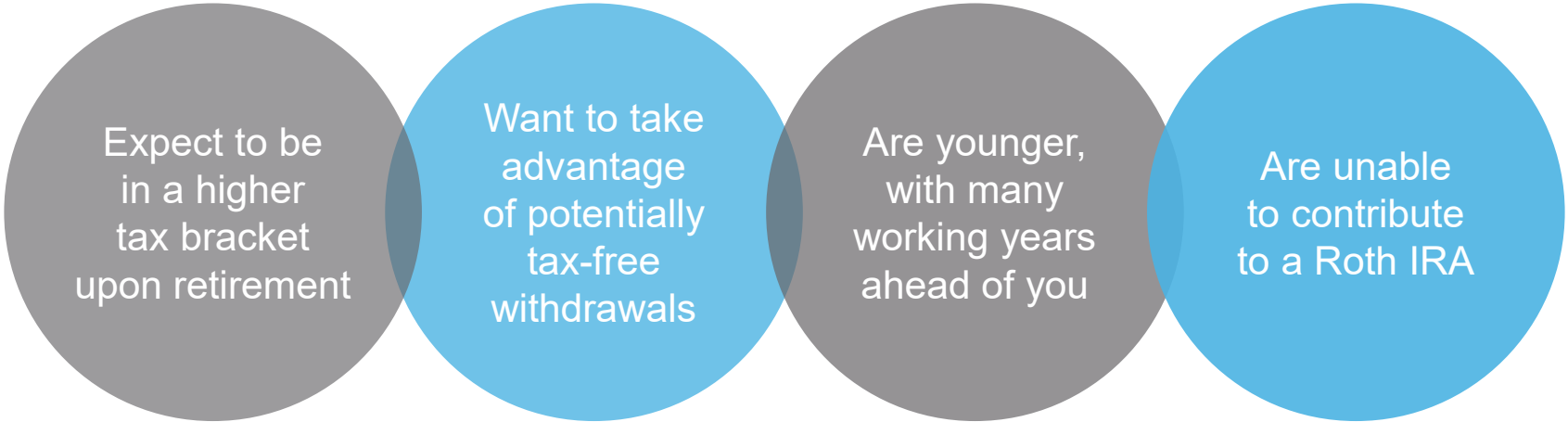
Tax impact of Roth 457 contributions

| | Traditional 457 Plan | Roth 457 contributions | | |
|-----------------------------------|-------------------------|------------------------|-----------------|-----------------|
| | | Employee A | Employee B | Employee C |
| Federal tax rate on contributions | 0% | 15% | 35% | 25% |
| Contribution amount | \$10,000 | \$10,000 | \$10,000 | \$10,000 |
| Less taxes paid at contribution | \$0 | \$1,500 | \$3,500 | \$2,500 |
| Net Contribution | \$10,000 | \$8,500 | \$6,500 | \$7,500 |
| Value in 20 years | \$46,610 | \$39,618 | \$30,296 | \$34,957 |
| Less taxes paid at distribution | (25%) \$11,652 | \$0 | \$0 | \$0 |
| Net Distribution | \$34,957 | \$39,618 | \$30,296 | \$34,957 |

Chart assumptions: This hypothetical illustration assumes an 8% annual rate of return over 20 years and a 25% tax bracket at distribution. Investment return is not guaranteed and will vary depending upon the investments and market experience.

Choosing the best route for you

You may want to consider Roth 457 contributions if you:



Expect to be in a higher tax bracket upon retirement

Want to take advantage of potentially tax-free withdrawals

Are younger, with many working years ahead of you

Are unable to contribute to a Roth IRA