

# Roth 457 FAQs

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## What is a Roth 457 option?

The Roth 457 option for governmental deferred compensation plans was authorized by Congress effective January 1, 2011. A Roth 457 is not a Roth IRA. Neither is a Roth 457 a separate plan; it is simply a way for employees to control the taxation of their deferred wages when they are disbursed in the future. This option allows employees to elect after tax salary deferrals into a Roth option. Roth elective deferrals are accounted for separately from the pre-tax contributions made to the plan. Distributions from the Roth 457 are tax free if the contributions have been in the Roth elective deferral account for at least 5 years and the participant is at least 59 ½.

## Why are we adding a Roth 457 option?

The Division of Retirement and Benefits has been contacted by employees participating in the Alaska Deferred Compensation Plan (DCP) requesting a Roth 457 option. For some employees, it might make sense to pay taxes on the DCP contributions now, rather than when money is withdrawn at retirement. Employees who would benefit are:

- Employee who expect either their pay or tax rate to increase substantially over time. Being taxed at a lower rate today may be a better option.
- Employees who expect to have relatively higher plan account investment earnings or to otherwise end up with a higher amount of money set aside for retirement, may benefit from paying taxes up front or just having a pool of tax-free money to draw on in the future.
- Younger employees who have a longer retirement horizon and more time to accumulate tax-free earnings under a Roth 457.
- Older employees who may want to leave tax-free money to their heirs in the future.
- Employees may want the option of not taking required withdrawals at age 70 ½ by rolling their Roth 457 to a Roth IRA.

The addition of a Roth 457 option gives employees more flexibility to save for retirement and provides control over when contributions, and retirement income, will be subject to federal income tax.

## Why do we need legislation?

Current Alaska Statutes 39.45.050 allows only for tax deferred contributions into the plan. The statute needs to be amended to allow acceptance of post-tax Roth contributions in the DCP.

**Can employees contribute to both pre-tax and Roth 457 post-tax basis at the same time?**

Yes, but the Roth 457 contributions count towards the IRS limitations on deferred compensation contributions. Roth 457 contributions can either replace or complement traditional pre-tax contributions subject to the IRS limits of \$17,500 per year.

**Once contributions are made to the Roth 457, can they be moved to the pre-tax account?**

No. There can be no mixing of the two types of contributions.

**Does this affect an employee's ability to contribute to a Roth IRA?**

No. Contributions to a Roth 457 have no effect on contributions to a Roth IRA.

**Is there a special fund the Roth 457 contributions are invested?**

No. Employees may invest Roth 457 contributions in any of the present fund options available in the Alaska Deferred Compensation Plan.

**Are there special withdrawal options for the Roth 457 contributions?**

No. The disbursement options remain the same for Roth 457 contributions. Earnings on the Roth 457 contributions will not be subject to taxation, however, if the employee is at least age 59 ½ and has held the Roth 457 account for 5 years or more.