Exploring the Roth contribution option

Johnson County 457(b) Deferred Compensation Plan: An opportunity for tax-free* retirement income.

* Qualifying conditions apply. Roth contributions must be held at least 5 years before date of distribution and you must be 59½ or older (assuming separation from service, death or disability).

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The Roth 457(b) contribution option

What’s right for you?

The Johnson County 457(b) Defined Contribution Plan includes a Roth after-tax contribution option. This option doesn’t change how much you can contribute. Nor does it change where you can invest. What it does is give you more control over when your contributions, and retirement income, will be subject to federal income tax.

Roth contributions to the Johnson County 457(b) Plan are made on an after-tax basis. That means contributions are subject to income taxes before they’re invested in your account. In exchange, you may be able to withdraw your contributions and any earnings tax-free when you retire.

In short, you’re trading a current tax benefit for a future tax benefit. So does this trade-off make sense for you? It primarily depends on what you think your federal income tax rate will be in retirement. Let’s take a closer look.

Would you rather pay taxes later?

Compare making pre-tax contributions

Now	Later
Pay no income taxes on contributions during your working years.	**Pay taxes** when you withdraw during retirement.

Money going in: (contributions)	Pre-tax contributions are deducted from your salary before taxes are taken. That can reduce your taxable income.
Earnings, if any:	Grow tax-deferred.
Money coming out: (distributions)	Distributions (contributions and earnings) are taxable as current income when withdrawn.
Money moving on: (rollovers)	Rollovers are allowed to another traditional government retirement plan or IRA, including Roth IRAs.
Required minimum distributions (RMD):	If you are retired, required minimum distributions begin at age 73.

Whichever contribution option you choose, you'll enjoy these key benefits

- **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 to the Johnson County 457(b) Plan than you can in an IRA you set up on your own.

Compare with making Roth after-tax contributions

Now	Later
Pay income taxes on contributions as you make them.	**Withdraw savings tax-free*** during retirement.

Money going in: (contributions)	After-tax contributions are subject to federal (and where applicable, state, and local) income tax withholding.
Earnings, if any:	Grow tax-free as long as certain qualifying conditions are met.
Money coming out: (distributions)	Tax-free distributions, as long as you've satisfied the five-year holding period and are age 59½ or older, disabled or deceased.
Money moving on: (rollovers)	Rollovers are allowed to a designated Roth account or Roth IRA.
Required minimum distributions:	RMDs are not required for Roth accounts.

* Qualifying conditions apply.

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So, which option is right for you?

Jeff (Age 45):

Wants current tax break

Jeff considers himself in his "peak" earning years. He knows he won't be making this money forever, but wants to enjoy it while he can.

- Doesn't think he can afford to lose another tax deduction at this point
- Doesn't really like change anyway
- Expects to be in a lower tax bracket when he retires

Linda (Age 25):

Wants long-term tax-free growth

Linda just got out of school and is embarking on her new career. She feels good about the fact she's already starting to build up her savings.

- Isn't worried about the tax deduction now
- Confident her salary will increase in the years to come
- Expects to be in a higher tax bracket when she retires

Comparing Jeff's options:

	Pre-tax	Roth
Gross income	$75,000	$75,000
Annual salary available to save	$10,000	$10,000
Less taxes at 25%[1]	-$0	-$2,500
Net yearly contribution	$10,000	$7,500
Totals over 20 years	$200,000	$150,000
Value at retirement (assumes 20 years of contributions at 6%)	$378,900	$284,200
Less taxes at 15%[2]	-$56,800	-$0
After-tax value	$322,100	$284,200
Considering: **Pre-tax**		

[1] Assumes current tax rate

[2] Assumes future tax rate

Comparing Linda's options:

	Pre-tax	Roth
Gross income	$35,000	$35,000
Annual salary available to save	$3,000	$3,000
Less taxes at 15%[1]	-$0	-$750
Net yearly contribution	$3,000	$2,250
Totals over 40 years	$120,000	$90,000
Value at retirement (assumes 40 years of contributions at 6%)	$478,200	$358,700
Less taxes at 33%[2]	-$157,678	-$0
After-tax value	$318,700	$358,700
Considering: **Roth after-tax**		

[1] Assumes current tax rate

[2] Assumes future tax rate

Note: These are hypothetical illustrations for demonstration purposes only. They are not guaranteed and not intended to (1) serve as financial advice or as a primary basis for investment decisions and (2) imply the performance of any specific security. Contributions are subject to Internal Revenue Code limits. Systematic investing does not ensure a profit nor guarantee against loss. Investors should consider their ability to invest consistently in up as well as down markets. This example does not represent any specific product, nor does it reflect sales charges or other expenses that may be required for some investments. After tax value of traditional 457(b) assumes a one time lump sum distribution. Your actual results may vary.

There are many reasons why pre-tax, Roth after-tax, or a combination of both contributions types to your 457(b) account may be right for you. A lot depends on when you expect to be in a higher tax bracket – now or when you retire. You'll also need to factor in your current financial situation, future goals and personal attitudes as well.

Wanda (Age 55):

Wants tax flexibility now and in retirement

Wanda likes the idea of tax-free retirement income, but also likes her current tax deduction. And she doesn't have a clue where taxes are headed in the future.

- Is getting close to retiring, but not that close
- Wants the flexibility to optimize her tax strategy year-to-year as she withdraws retirement income

Comparing Wanda's options:

	Pre-tax	Roth
Gross income	$60,000	$60,000
Annual salary available to save	$6,000	$6,000
Less taxes at 25%[1]	-$0	-$1,500
Net yearly contribution	$6,000	$4,500
Totals over 10 years	$60,000	$45,000
Value at retirement (assumes 10 years of contributions at 6%)	$81,500	$61,100
Less taxes at 25%[2]	-$20,400	-$0
After-tax value	$61,100	$61,100
Considering: **Combination of pre-tax and Roth**		

[1] Assumes current tax rate

[2] Assumes future tax rate

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Does the Roth option make sense for you?

In these questions, more "yes" answers indicate that the Roth option may make sense, while more "no" answers indicate that pre-tax contributions may make more sense.

	Yes	No
Do you plan to work at least five more years before you retire?		
Do you think your tax rate will be higher by the time you retire?		
Are you willing to swap a current tax break for a longer-term tax benefit?		
Are you focused on passing as much as possible to your heirs?		
Can you afford to save with more of your net salary now to contribute the same amount to your Johnson County 457(b) account with Roth after-tax as you would with pre-tax money?		

Still have more questions?

What is a Roth qualified distribution?

A Roth qualified distribution must meet a two-prong test:

- A five-year holding period, and
- A distribution taken on or after age 59½, or should you become disabled (assuming you have separated from service) or deceased.

What is the "five-year rule?"

The five-year holding period determines when you can take tax-free income. The five-year rule means that your first Roth contribution to your Johnson County 457(b) account must have been made at least five years before withdrawing it.

I'm young and currently in a low tax bracket, but I expect my earnings to grow. Is Roth right for me?

It could be. The longer you can leave Roth money in your Johnson County 457(b) account 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 that Roth can provide in the future.

I may retire in a few years. Is Roth right for me?

That depends on when you plan to start tapping into your 457(b) savings. To qualify for tax-free income from a Roth account, remember that you have to meet a two-prong test and satisfy the "five-year rule" as explained above.

Can I contribute to both the pre-tax and Roth after-tax 457(b) accounts?

Yes. You can contribute to both in the same year in any proportion you choose. The combined amount of all elective contributions must not exceed the annual deferral limit. Visit **voya.com/irslimits** for information on the annual deferral and catch-up contribution limits for 457(b) Plans.

Can I change or stop making Roth contributions at any time?

Yes. Log into your Johnson County 457(b) account at **joco.voya.com** to update your Roth contributions.

Why should I consider Roth contributions to the Johnson County 457(b) Plan instead of a Roth IRA?

Two key reasons.

1. Not everyone can qualify for a Roth IRA. You can only contribute the full amount if your adjusted gross income falls below certain limits set by the IRS.
2. You can contribute significantly more on a Roth after-tax basis to the Johnson County 457(b) Plan than you could to a Roth IRA (if eligible). For current IRS limits on retirement savings account contributions, visit **voya.com/irslimits**.

How will contributing on a Roth after-tax basis affect my take-home pay?

Making Roth contributions could potentially reduce your take-home pay since it won't reduce your current taxable income. Since you're paying taxes on a higher amount, it could reduce your take-home pay. See the example below.

	Pre-tax	Roth After-tax
Gross income	**$50,000**	**$50,000**
Pre-tax 457(b) contribution	- $5,000	N/A
Taxable Income $50,000	**$45,000**	
25%[1] income taxes	- $11,250	- $12,500
After-tax income	**$33,750**	**$37,500**
Roth 457(b) contribution	N/A	- $5,000
Take-home pay	**$33,750**	**$32,500**

[1] Based on current federal tax rates.

Contributing to a Roth 457(b) may also affect your ability to take other tax credits and deductions such as student loan deductions, medical expense deductions and child care tax credits. Whether you qualify for these tax credits and deductions depends on your income level. Since Roth after-tax contributions won't reduce your adjusted taxable income, that could affect your eligibility for these tax reductions.

Meet Voya's local Johnson County team

You have access to a dedicated Voya team who can help you review your specific retirement planning situation and develop a plan that helps you meet your retirement objectives. You can schedule a meeting at a date and time that's convenient for you. Meet the team:

Marisa Brown

Bill Hirschler

Julie Kurland

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Visit **joco.timetap.com** or call **(913) 661-3797** to schedule an appointment today.

Investment adviser representative and registered representative of, and securities and investment advisory services offered through, Voya Financial Advisors, Inc. (member SIPC).

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