



# Roth 403(b)

Another 403(b) savings opportunity

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# The Roth 403(b) is here.

This fact sheet provides basic information regarding the operation and administration of this savings opportunity.

## What is a Roth 403(b)?

A Roth 403(b) allows participants to make after-tax contributions to a designated Roth account under a 403(b) plan. By adding the Roth 403(b) option, you can provide your employees with a new opportunity to save for retirement. Your employees will have the choice to make contributions on an after-tax basis under the Roth 403(b), on the current pre-tax basis, or a combination of the two, depending upon what is best for their personal circumstances and savings goals. In addition, a 403(b) plan that has a Roth account feature may also permit a participant or spousal beneficiary to roll over non-Roth amounts within the 403(b) plan that are an eligible rollover distribution to an in-plan Roth rollover account under your 403(b) plan, if your plan document so provides.

## How does the Roth 403(b) work?

The contribution limits associated with employee contributions made to the 403(b) plan are applied to the combined pre-tax and Roth 403(b) after-tax employee contribution amount and cannot exceed IRS limits. Employees who are age 50 or older or with 15 or more years of service with your current employer, if that employer is a public school, hospital, home health service agency, health and welfare service agency, church or association or convention of churches, may be able to make additional catch-up contributions. For current IRS limits, including catch-up limits, on retirement savings account contributions, go to [www.voya.com/IRSlimits](http://www.voya.com/IRSlimits).

If you are eligible for both catch-up contributions in the same tax year, the IRS requires that you first contribute any available amount under that year's 15 years of service catch-up before making that year's age 50+ catch-up contribution. See your local Voya® representative for additional information regarding catch-up contributions.

- Roth 403(b) after-tax contributions and earnings must be accounted for separately from pre-tax contributions to the 403(b).
- Earnings distributed from the Roth 403(b) account will be tax-free for federal income tax purposes if they are Qualified Distributions. To be a Qualified Distribution, the funds must be held for a 5-year holding period, measured from the earlier of (A) the first year that contributions were made on behalf of the participant to any Roth 403(b) account in the employer's plan, or (B) if a direct rollover contribution of Roth amounts was made to the 403(b) plan, the first year a Roth contribution was made to another plan with a designated Roth account from which the direct rollover contribution originated or the first year of an in-plan Roth conversion

## Why is the Roth 403(b) option important to you and to your employees?

We all know that saving for retirement is important...and that there is no "one size fits all" solution to meet each individual employee's retirement planning needs.

Offering your employees the convenience of payroll deduction for both pre-tax and after-tax savings provides them with a greater opportunity for saving – no matter which option they choose.

Deciding whether to contribute to a 403(b) plan on a pre-tax basis\* or to a Roth 403(b) on an after-tax basis is a decision each employee must make based on their personal circumstances, savings needs and financial goals. Here are some factors that may impact your employees when making their retirement plans:

- The expected length of time until a distribution is needed from either a pre-tax or Roth 403(b) after-tax account.
- The anticipated income tax rates at the time of distribution and individual prediction of personal income tax bracket.
- The value of earnings accumulated under the Roth 403(b) on a tax-free basis, and the potential tax-free withdrawal of those funds versus the current benefit of saving on a pre-tax basis.

- Tax and estate planning opportunities afforded by a combination of pre-tax and after-tax savings.

The addition of a Roth 403(b) option for your employees can open a new planning opportunity. Voya representatives are available to provide educational meetings to help you and your employees understand the Roth 403(b) rules.

## Getting ready for the Roth 403(b) option

There are a few things you will need to do in order to offer your employees a Roth 403(b) option under your 403(b) program.

- Federal income tax (and state and local income tax, where applicable) as well as any applicable payroll taxes must be withheld from the employee's Roth 403(b) contribution. This is different from pre-tax contributions because no federal (and, depending upon applicable law, state and/or local) income taxes are withheld for pre-tax contributions. On the other hand, federal payroll taxes (FICA and FUTA, if applicable) apply to both pre-tax and after-tax contributions.
- Both pre-tax and Roth 403(b) after-tax contributions will be reported on each employee's W-2. The IRS has a special code on the Form W-2 to distinguish Roth 403(b) contributions from pre-tax employee deferrals.
- Adding a Roth 403(b) feature will need to be approved by your board and amended to be included in your 403(b) plan document. The ability to make Roth 403(b) contributions should be communicated to your employees in the IRS' annual "universal availability" notice about the opportunity to participate in the 403(b) plan.

\*Distributions from traditional 403(b) plans will be taxed as ordinary income when distributed and may be subject to an IRS 10% premature distribution penalty tax if taken prior to age 59½ unless another IRS exception applies.

## Similarities/Differences between the Traditional Pre-Tax 403(b), the Roth 403(b) and the Roth IRA:

Key similarities/differences are illustrated below, based on available guidance to date. It is important to note that the Roth 403(b) will have the same restrictions on pre-59½ withdrawals as does the traditional (pre-tax) 403(b), while there are no restrictions for withdrawals from the Roth IRA.

	Traditional Pre-Tax 403(b)	Roth 403(b)	Roth IRA
<b>Eligibility</b>	All employees are eligible unless the plan includes IRS permitted exceptions.  No Adjusted Gross Income (AGI) eligibility limit.	All employees are eligible unless the plan includes IRS permitted exceptions.  No AGI eligibility limit.	If your income exceeds IRS limits, the amount you can contribute to your Roth IRA may be reduced. For current limits, go to <a href="https://www.voyadelivers.com/irslimits.2">https://www.voyadelivers.com/irslimits.2</a>
<b>Contribution Limits</b>	For current IRS limits on retirement savings account contributions, go to <a href="http://www.voya.com/IRSlimits">www.voya.com/IRSlimits</a> .		
<b>Tax-Free Qualified Distribution<sup>1</sup></b>	Not available. All distributions are taxed as ordinary income.	Earnings are not subject to federal income tax if the following criteria are met: 5-year holding period and distribution due to: <ul style="list-style-type: none"> <li>• Attainment of age 59½</li> <li>• Disability</li> <li>• Death</li> </ul>	If the following criteria are met: 5-year holding period and distribution due to: <ul style="list-style-type: none"> <li>• Attainment of age 59½</li> <li>• Disability</li> <li>• Death</li> <li>• Certain first-time home purchase.</li> </ul> Special rules apply to rollovers.
<b>5-Year Holding Period</b>	None	Measured from the earlier of (A) the first taxable year that contributions are made on behalf of the participant to any Roth 403(b) account in the employer's plan or (B) if a direct rollover contribution is made from another plan with a designated Roth feature, the first taxable year the contributions were made to that plan's designated Roth account from which the direct rollover originated, if earlier.	Measured from the first taxable year the Roth IRA owner made a contribution to any Roth IRA.
<b>Distributions Permitted (earnings on Roth 403(b) contributions may be subject to taxation if the distribution is not a Qualified Distribution)</b>	<ul style="list-style-type: none"> <li>• Age 59½</li> <li>• Death</li> <li>• Disability</li> <li>• Severance of employment</li> <li>• Financial hardship (earnings may not be distributed in the case of hardship)</li> </ul>	<ul style="list-style-type: none"> <li>• Age 59½</li> <li>• Death</li> <li>• Disability</li> <li>• Severance of employment</li> <li>• Financial hardship (earnings may not be distributed in the case of hardship)</li> </ul>	At any time (no restrictions apply).
<b>Internal Revenue Service 10% Premature Distribution Penalty Tax</b>	Applicable to all amounts distributed prior to age 59½, unless another IRS exception applies.	Applicable to earnings distributed (if the distribution is not a Qualified Distribution) prior to age 59½, unless another IRS exception applies.	Applicable to earnings distributed prior to age 59½, unless an exception applies.
<b>Required Minimum Distribution</b>	Yes	Yes	No, during owner's lifetime. RMD only applies to beneficiaries of a Roth IRA.

<sup>1</sup> Note that distributions from the Roth 403(b) and Roth IRA are subject to taxation on the portion attributable to earnings if made before Qualified Distribution provisions are satisfied.

<sup>2</sup> Check with your tax professional about the Internal Revenue Service's AGI phase out for Roth IRA contributions.

**These materials are not intended to be used to avoid tax penalties, and were prepared to support the promotion or marketing of the matter addressed in this document. The taxpayer should seek advice from an independent tax advisor.**

For more information please contact:

Voya Financial Partners LLC  
One Orange Way  
Windsor, CT 06095-4774

VoyaRetirementPlans.com



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For 403(b)(1) annuities, employee deferrals (including earnings) may generally be distributed only upon your: attainment of age 59½, severance from employment, death, disability, or hardship. Note: Hardship withdrawals are limited to employee deferrals made after 12/31/88. Exceptions to the distribution rules: No Internal Revenue Code withdrawal restrictions apply to '88 cash value (employee deferrals (including earnings) as of 12/31/88) and employer contributions (including earnings). However, employer contributions made to an annuity contract issued after December 31, 2008 may not be paid or made available before a distributable event occurs. Such amounts may be distributed to a participant or if applicable, the beneficiary: upon the participant's severance from employment or upon the occurrence of an event, such as after a fixed number of years, the attainment of a stated age, or disability. For 403(b)(7) custodial accounts, Employee deferrals and employer contributions (including earnings) may only be distributed upon your: attainment of age 59½, severance from employment, death, disability, or hardship. Note: hardship withdrawals are limited to: employee deferrals and '88 cash value (earnings on employee deferrals and employer contributions (including earnings) as of 12/31/88).

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