The Roth 457 Option: Is it Right for You?

Your 457 Plan accepts Roth 457 contributions, giving you the flexibility to designate all or a portion of your 457 elective deferrals as Roth contributions. Roth 457 after-tax contributions and traditional before-tax 457 contributions each have advantages. You should thoroughly review the following information and consider consulting a financial advisor prior to electing your contribution dollar amounts.

HOW ARE ROTH CONTRIBUTIONS DIFFERENT FROM TRADITIONAL 457 CONTRIBUTIONS?

Roth contributions are made with after-tax dollars. Traditional 457 contributions are made on a before-tax basis and you pay taxes only when you take a distribution.

You can choose different fund allocations within your traditional and Roth accounts from your Contra Costa County Deferred Compensation Plan fund lineup.

CAN EMPLOYER CONTRIBUTIONS BE DESIGNATED AS ROTH?

No, employer contributions can only be made on a before-tax basis.

DO I PAY TAXES WHEN I TAKE A DISTRIBUTION FROM MY ROTH 457 ACCOUNT?

Your distribution is income tax-free if you are eligible for a distribution from your Plan and you withdraw your Roth contributions and any earnings after holding the account for at least five tax years and:

- You are at least age 59½; or
- You become disabled; or
- You die (in which case, your beneficiaries will take a withdrawal).

If a distribution is made from your Roth 457 account before you reach age 59½ and it is not due to death or disability, or reaching the five-tax-year holding period, you will pay income taxes on any earnings that are distributed. Otherwise, there is no income tax due on the Roth contributions distributed from the Plan because contributions are made with after-tax dollars.

DO I PAY TAXES WHEN I TAKE A DISTRIBUTION FROM MY TRADITIONAL 457 ACCOUNT?

Withdrawals of contributions and any earnings from your traditional before-tax 457 account are subject to income taxes.[1]

ARE THERE ANY LIMITATIONS ON A PARTICIPANT'S INCOME AS IT RELATES TO HIS OR HER ELIGIBILITY TO PARTICIPATE IN THE ROTH?

There are no income limitations on participants as it relates to their eligibility to make Roth contributions to the Contra Costa County Deferred Compensation Plan. However, annual contribution limits do apply.

HOW MUCH CAN I CONTRIBUTE?

The maximum combined contribution limit in 2021 is $19,500. If you are age 50 or older, you can make additional catch-up contributions of $6,500. If you are in the three years ending prior to the year you attain normal retirement age under the Plan, you may be able to contribute up to $39,000 in 2021 (called three-year catch-up contributions). The amount you are allowed to contribute is based on amounts you were eligible to contribute to the 457 Plan in previous years but did not. The age 50+ catch-up and three-year catch-up provisions may not be used in the same year.

HOW DOES THE ROTH 457 DIFFER FROM A ROTH IRA?

- **Contribution limits** – Roth IRA contributions are limited to $6,000 in 2021 (or $7,000 if you are age 50 or older) versus $19,500 for the Roth 457 (or $26,000 if you are age 50 or older). So you can contribute more on an after-tax basis to your Roth 457 than to a Roth IRA.
- **Eligibility** – If you're single and earn more than $139,000 a year or are married with a joint income of more than $207,000 in 2021, you aren't eligible to contribute to a Roth IRA in 2021. However, if you meet your Plan's eligibility requirements, you can participate in the Roth 457 Plan regardless of your income.

CAN I ROLL OVER MY ACCOUNT IF I CHANGE EMPLOYERS?

Should you leave your current employer, you still have the option of rolling over your Roth 457 account to a Roth IRA or to a 457, 401(k) or 403(b) plan that has a designated Roth account and accepts Roth rollovers. You can roll over your traditional 457 account to any eligible traditional IRA, Roth IRA, governmental 457 plan, 403(b) plan or qualified 401(k) plan that accepts rollovers.

HOW DO I CHOOSE THE ROTH OPTION?

To begin the Roth enrollment process and set up paycheck contributions, click here.

	Before-Tax 457	After-Tax Roth 457
Is my contribution taxable in the year I make it?	No	Yes
Is my contribution taxed when distributed?	Yes	No
Are the potential earnings on my contributions taxed when distributed?	Yes	No, provided the distribution occurs after you have reached age 59½ or upon disability or death AND no earlier than five tax years after your first Roth 457 contribution
If I change jobs, can I roll over my account?	Yes, to a qualified 401(k) plan, traditional IRA, Roth IRA, 403(b) plan or governmental 457(b) plan if the plan allows it	Yes, to a Roth IRA or governmental 457(b) plan, 401(k) plan or 403(b) plan if the plan has a designated Roth account and accepts rollovers[2]
	As with any financial decision, you are encouraged to discuss moving money between accounts, including rollovers, with a financial advisor and to consider costs, risks, investment options and limitations prior to investing.	
What is the maximum amount I can contribute?	Combined limit for contributions in 2021: $19,500 or $26,000, including the additional $6,500 age 50+ catch-up contribution; or up to $39,000 if eligible for three-year catch-up contributions. The age 50+ catch-up and three-year catch-up provisions may not be used in the same year.	
If I experience an unforeseeable emergency, can I make a withdrawal?	Yes	Yes
Do I have to take a minimum distribution at age 72 (or age 70½ if you reached 70½ before January 1, 2020)?	Yes	Yes

MAKING THE BEST CHOICE FOR YOU

You will have to determine whether contributing to your Plan on an after-tax Roth basis or a traditional beforetax basis makes more sense for your situation. The Roth 457 option essentially locks in today's tax rates on all contributions. For some people—especially those who expect to be in a higher tax bracket when they retire — the Roth 457 option may make the most sense. The Roth option allows you to pay taxes on your contributions when they are contributed (presumably at a lower tax rate than you would expect to pay at retirement).

If you expect to be in a lower tax bracket when you retire, you might want to consider contributing to your 457 on a before-tax basis.

You won't pay taxes on your contributions or any earnings on your contributions until you take a distribution, which is usually during retirement (when many people expect their retirement earning power and tax burden to be lower than they are today).

THE BOTTOM LINE: PARTICIPATE!

Regardless which type of contributions you choose, the important thing is to contribute as much as you can today for your retirement tomorrow. If you decide that Roth 457 contributions are right for you, you can make the appropriate changes to your account by clicking here.

For more information about Roth 457, please contact the Contra Costa County Deferred Compensation Plan Service Center at 833-457-2626 or go online: www.contracosta457.com

1 Withdrawals may be subject to ordinary income tax. The 10% federal early withdrawal penalty does not apply to 457 plan withdrawals except for withdrawals attributable to rollovers from another type of plan or account.

2 Governmental 457 dollars rolled over to another type of plan or account may be subject to the 10% federal early withdrawal penalty upon distribution from the non-457 account prior to the investor reaching age 59½.

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