The Roth option offers potential for tax-free retirement income

Did you know? You have the option of making Roth contributions to IU's supplemental retirement plans—the IU Tax Deferred Account (TDA) and the IU 457(b) Retirement Plan.

An additional way to save in your plan

When you invest traditionally, you contribute with ***pre-tax*** dollars, then pay taxes on withdrawals when you retire. The Roth option allows you to contribute with ***after-tax*** dollars, then withdraw funds tax-free when you retire.*

How the Roth option compares with a traditional pre-tax contribution

Just as with a traditional pre-tax contribution:

- You elect how much of your salary (a flat-dollar amount or a percentage of your pay) you wish to contribute
- Your Roth and traditional pre-tax contributions combined cannot exceed the annual IRS contribution limits

Unlike traditional pre-tax contributions, Roth allows you to withdraw your money tax-free when you retire.* But it will also require you to make after-tax contributions now.

Who might benefit from Roth contributions?

- Younger employees who have a longer retirement horizon and more time to accumulate tax-free earnings
- Highly compensated individuals who aren't eligible for Roth IRAs, but who want a pool of tax-free money to draw from in retirement
- Employees who want to leave tax-free money to their heirs

Action Plan

- Read this information about the Roth option
- Contact a tax professional for specific advice on your personal situation

Taxes: Pay now or pay later

	Traditional Pre-tax	Roth
Employee contributions	Pre-tax dollars	After-tax dollars
Employee withdrawals	Taxable upon withdrawal	Tax-free upon withdrawal*

* In the event of either retirement or termination, your earnings can be withdrawn tax free as long as it has been five tax years since your first Roth contribution and you are at least 59½ years old. In the event of death, beneficiaries may be able to receive distributions tax free if the deceased started making Roth contributions more than five tax years prior to the distribution. In the event of disability, your earnings can be withdrawn tax free if it has been five tax years from your first Roth contribution.

How do I start making Roth contributions?

You can begin making Roth contributions to your IU supplemental retirement plans at any time by following the instructions below:

- Log in the Employee Center task in One.IU
- Click on the ***Benefit Details*** tile
- Click the ***Optional Benefit Changes*** tile
- Click the green ***Start Optional Benefit Change*** button
- Verify your personal information, payroll direct deposit and tax withholding details, and emergency contact, and make updates if needed. Click ***Next*** to proceed to the next step.
- Click the ***Start My Enrollment*** button. On the next screen, click the gray ***Select*** button next to the event.
- Under the 'Benefit Plans' heading, find and select the plan you wish to change – Roth TDA or Roth 457(b).
- Under 'Contributions' enter the ***flat-dollar amount or percentage of your pay*** that you would like to contribute each pay period.
- Click ***Done*** in the upper right-hand corner to continue.
- Click the green ***Submit Enrollment*** button under the 'Enrollment Summary' heading.
- A confirmation message will appear on the screen once your elections have been submitted successfully. Additionally, an e-mail confirming your submission will be sent to your IU email address. If you do not receive an email, your changes were not submitted properly.

The Roth contribution: Four questions to consider.

Roth is designed to combine the benefits of saving in tax-deferred IU supplemental retirement plans with the advantage of avoiding taxes on your money withdrawn at retirement.

1 Will I be in a higher marginal tax rate in retirement than I will be during my working years?

This is a question that no one can answer with certainty. Marginal income tax rates have declined over the last two decades. If tax rates were to continue to decline, traditional pre-tax contributions might be the better option. The same is true for individuals who expect their marginal tax rate to be lower in retirement as the result of a lower income. Generally:

- If tax rates stay the same, traditional pre-tax or Roth contributions will likely yield the same nest egg after taxes.
- If tax rates rise, paying taxes now through Roth contributions will likely yield a higher after-tax retirement benefit than traditional pretax contributions.
- If tax rates decrease, deferring taxes now with traditional pre-tax contributions will likely benefit you more at retirement.

2 Can I afford to maximize my contributions and save up to the IRS limit?

If you can afford it, making maximum Roth contributions may be a good option. Since earnings may be tax-free, a qualified Roth distribution could provide more cash upon retirement than an equivalent traditional pre-tax distribution would.

3 Do I want to leave tax-free money to my heirs?

Your beneficiaries may be able to receive your Roth account tax-free if you pass away. Additionally, you can roll Roth funds into a Roth IRA, potentially delaying minimum required distributions from those amounts during your lifetime.

4 Do I make too much money today to invest in a Roth IRA?

Unlike Roth IRAs, there are no maximum income limits for Roth contributions in IU's supplemental retirement plans. Even if your income is too high to qualify for a Roth IRA, you can make Roth contributions to your IU supplemental retirement plans.

Things to remember

- Because Roth contributions are under the same IRS limits as pre-tax contributions to your plan, each dollar of a Roth contribution reduces the amount that can be contributed pre-tax (and vice versa).
- Your take-home pay will be less than it would be if you made an equivalent traditional pre-tax contribution because income taxes must be currently withheld and paid on after-tax Roth contributions.

Sally's story

Sally earns $40,000 annually, and has elected to make traditional pre-tax contributions of 6%, and Roth contributions of 6% each month.

	Roth†	Traditional Pre-tax†
Sally's monthly contribution into each account	$200	$200
Sally's reduction in take-home pay	$200	$156

† This hypothetical example is based solely on an assumed federal income tax rate of 22%. No other payroll deductions are taken into account. Your own results will be based on your individual tax situation.

Make an informed decision for your retirement readiness

Your IU supplemental retirement plans give you the choice of making traditional contributions, Roth contributions, or both. It makes sense to consult a personal tax advisor before making a final decision, but this short checklist can help focus on the key considerations:

Decision Checklist:

1. Do you expect to be in a higher tax bracket in retirement than you are now?

   ○ Yes ○ No

2. Can you afford to maximize your contributions now?

   ○ Yes ○ No

3. Do you want to leave tax-free money to your heirs?

   ○ Yes ○ No

4. Do you earn too much to be eligible for a Roth IRA?

   ○ Yes ○ No

This information is intended to be educational and is not tailored to the investment needs of any specific investor.

Investing involves risk, including risk of loss.

Approved for use in Advisor and 401(k) markets. Firm review may apply.

[1]A qualified withdrawal in this case, is one that is taken at least 5 tax years after the year of your first Roth contribution and after you have attained age 59½, become disabled or deceased.

Contributions to the plan are subject to the annual IRS limits. The aggregate of both pretax and Roth contributions is subject to the annual IRS dollar limit.

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