

June 22, 2011

To: Faculty and Staff

From: Keith Dietze
Director of Universitywide Benefits

Subject: Roth 403(b) Retirement Plan Option

Effective July 1, 2011, the university will begin offering a Roth contribution feature to the Supplemental Retirement 403(b) Plan. The Roth 403(b) was designed to combine the benefits of saving in your tax-deferred workplace retirement plan with the advantage of avoiding taxes on your money when taking a qualified withdrawal at retirement. Roth contributions are made on an after-tax basis and are included in your current taxable income. Additionally, the earnings on these contributions are not subject to income tax when distributed if they are part of a “qualified distribution.” Below is a summary of the Roth 403(b) Retirement Plan option.

Program Summary

The Roth option for 403(b) plans is a tax savings vehicle that allows employees of any income level to contribute on an after-tax basis with earnings accumulating on a tax-deferred basis. If certain requirements are met, the earnings may also be withdrawn tax free.

Differences between Roth 403(b) Contributions and Traditional 403(b) Contributions

With a Roth 403(b), participants can designate all or a portion of future deferral contributions as “Roth contributions.” Traditional 403(b) contributions are made on a pre-tax basis and are not included in current taxable income. The pre-tax contributions and any earnings will be subject to income taxes when withdrawn. In contrast, Roth 403(b) contributions are made on an after-tax basis and are included in current taxable income. Earnings are tax free if they are part of a “qualified distribution.” A qualified distribution is one that is taken at least five tax years from the year of the first Roth 403(b) contribution and after the participant attains age 59½, becomes disabled or deceased.

Plan Administration

The Roth 403(b) Retirement Plan option is offered by both TIAA-CREF and Fidelity Investments.

Eligibility Requirements

Any employee, regardless of age, length of service, salary, or benefits FTE may enroll in the Roth 403(b) Retirement Plan.

Employee Contribution

Participants can contribute up to \$16,500 to a Roth 403(b) Retirement Plan in 2011. Employees who are age 50 or older may contribute an additional \$5,500 as part of the catch-up provision. Participants may make any combination of pre-tax traditional 403(b) and after-tax Roth 403(b) contributions as long as the total does not exceed the annual IRS 402(g) limit (in 2011, \$16,500 or \$22,000 for employees age 50 or older). Contribution limits are subject to change each year.

Employer Contributions

Neither the traditional 403(b) nor the Roth 403(b) option includes a contribution by the university.

Advantages of a Roth 403(b)

- Participant should first try to assess what his or her tax rate may be in retirement. As general guidance, participants who expect to move to a higher tax bracket when they retire may benefit from the Roth option. Participants will pay taxes on the Roth contributions now – potentially at a lower rate – and then receive their assets tax-free when they are in the higher tax bracket.
- There are no income limits for a Roth 403(b). Therefore, participants whose income exceeds the allowable limits for contributing to a Roth IRA might consider the Roth 403(b). (Income limits for a full and partial contribution are different and somewhat complex. In 2011, a single filer with an Adjusted Gross Income of \$105,000 or less [\$167,000 or less for a joint filer] may contribute to a Roth IRA). You may participate in both the Roth 403(b) and Roth IRA as long as you satisfy income and eligibility requirements.
- A Roth 403(b) option also provides participants an opportunity to make higher and/or maximize after-tax contributions.
- Participants can also pass tax-free income to their heirs through the Roth 403(b).

Tax-Free Distribution

Participants can take tax-free distributions from the Roth 403(b) account under the following conditions:

- Distribution is made no earlier than five years after contributions were first made to the Roth account; and
- Participant is age 59½ or older, or is permanently disabled or has died.

Income taxes are payable on non-qualifying withdrawals from Roth earnings that do not meet the conditions above. Withdrawals of earnings are subject to ordinary income tax and a federal 10% tax penalty may apply prior to age 59½.

In-Service Access

In-service distributions before age 59½ are not permitted unless the participant has a financial hardship. Hardship distributions are based on the IRS Safe Harbor rules which permit withdrawals for immediate and heavy financial need such as payment for medical expenses, purchase of a principal residence, tuition, eviction, burial or funeral expenses, repair or damage to a principal residence that would qualify for the casualty deduction.

Investment Options

Roth 403(b) funds must be invested in the same account allocation as the participant's traditional 403(b) Retirement Plan assets (i.e., if 50% Fidelity Intermediate Bond Fund and 50% Fidelity Growth Company Fund are used in the traditional 403(b) account, then Roth 403(b) funds must be allocated 50% Fidelity Intermediate Bond Fund and 50% Fidelity Growth Company Fund.)

GETTING STARTED

Adding Roth contributions to your Supplemental Retirement 403(b) Plan is easy. You simply need to complete and submit a new Pre-tax Salary Reduction/Roth Deduction Agreement to your Campus Benefits Office. A Pre-tax Salary Reduction/Roth Deduction Agreement may be obtained from the university's Benefits webpage at www.nebraska.edu/benefits. If you are enrolling in the Supplemental Retirement 403(b) Plan for the first time, you will also need to complete a TIAA-CREF and/or Fidelity enrollment application. If you already have a traditional supplemental account established, you do not need to complete another account application to have Roth 403(b) contributions deducted from your pay. **Your Pre-tax Salary Reduction/Roth Deduction Agreement must be received in the Campus Benefits Office by the last day of the month prior to the effective date of your change.**

Should you have any questions regarding this information, please call your Campus Benefits Office.

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[Supplemental Tax-Sheltered Annuity 403\(b\) Program Salary Reduction Agreement Form](#)