

Roth 403(b)

Providing UC employees with an additional retirement savings option such as the Roth 403(b) may be an effective recruitment and retention tool given this plan can be advantageous to certain employees and in many cases is advantageous when compared to an individual Roth IRA.

Like a Roth IRA, contributions are made on an after-tax basis and allow for tax-free growth. The plan allows for tax-free withdrawals if the account has been open for at least five years and distributions are made after age 59 ½. However the plan does not have income limits and has much higher annual contribution limits.

The following table outlines the features and differences between the two accounts:

| | Roth 403(b) | Roth IRA |
|---|---|---|
| Eligibility Requirements | Must be an employee paid through the UC payroll system | Must have earned income |
| Income Limits | None | \$114,000 if single \$166,000 if married and filing jointly |
| Contribution Limits | Minimum: Plan sponsor may impose minimum limits Maximum: <ul style="list-style-type: none"> • \$15,500* annually – under age 50 • \$20,500* annually – age 50 and over | Minimum: Plan sponsor may impose minimum limits Maximum: \$4000 annually - under age 50 \$5000 annually - age 50 and over |
| Additional Contributions – long time service and catch-ups | Employees with 15 or more years of employment with UC may be eligible to contribute an additional \$15,000 over 5 years not to exceed \$3,000 per year | None |
| Distribution Rules: Contributions and earnings may be distributed without taxes based on the following: | <ul style="list-style-type: none"> • Must be enrolled in the plan for at least five years and age 59 ½ or older or; • Must be enrolled in the plan for at least five years and eligible for distribution based on: • **Hardship, **Disability or **Death or; • **Qualified Reservist or; • **Qualified Domestic Relations Order or; • **Separation of employment with UC • See IRS Pub 571 for more info | <ul style="list-style-type: none"> • Must be enrolled in the plan for at least five years and age 59 ½ or older or; • Must be enrolled in the plan for at least five years and eligible for distribution based on: • **Hardship, **Disability or **Death • **First time home purchase • **Qualified Reservist • See IRS Pub 590 for more info |
| Mandatory Distributions | Mandatory distributions beginning the later of age 70 ½ or the year in which one retires | None |
| Order of Distributions | Each distribution consists of a proportionate share of contributions and earnings | All distributions are treated first as return of contributions before any account earnings are received |
| Convenience Factors | <ul style="list-style-type: none"> • Managed by FITSCo • Education provided by FITSCo • Contributed to through a payroll deductions | <ul style="list-style-type: none"> • Individuals must work directly with an outside financial institution • Account fees may apply |

* This dollar amount represents the combined maximum annual contributions for the traditional 403(b) and Roth 403(b); one **cannot** contribute \$15,500 to each account.

**If you qualify for one or more of these exceptions you may avoid early withdrawal penalties.

In addition our UCSF Financial Planner provides us with the following:

A 403(b) Roth plan may benefit employees in the following situations:

1. Where the employee will likely be in a higher marginal income tax rate after they begin taking distributions from their 403(b) plan than they are while they are contributing to the plan. These could include:
 - a. A young employee, medical resident, fellow, or other professional whose current income is probably low compared to their ultimate income in retirement, and who is willing and able to contribute more than is allowed for a Roth IRA. While this may be hard to imagine, I did receive a complaint from a resident who fit this profile.
 - b. Almost everybody at a current middle or high income level if income tax rates are increased in the future as a result of current budget deficits in the U.S. This may be hard to predict, but it is not hard to imagine and is offered by many professionals as a reason the Roth plans are more desirable.
 - c. Those with a currently high level of itemized deductions (such as home mortgage interest or dependents) that will disappear or be substantially lower by the time they begin taking plan distributions.
2. Where the employee will have an adjusted gross income after retirement (before plan distributions) within a range that requires them to include some, but not the maximum amount, of their Social Security benefits in their federal taxable income. Currently a single taxpayer with pension income plus 50% of their Social Security benefits totaling more than \$25,000 annually (\$32,000 if married and filing jointly) can experience a higher federal tax bracket just by taking distributions from a tax-deferred retirement plan. With a 403(b) Roth plan, their distributions would not be included in adjusted gross income.
3. Where the employee does not wish to take distributions and would like to have the plan assets pass to their beneficiaries upon their death. A 403(b) Roth would be especially advantageous if the employee's estate would incur an estate tax but did not have enough liquid assets to pay the tax.
4. Conversely, a tax-deferred 403(b) plan maybe more advantageous if an employee will be in a lower marginal tax rate after they begin distributions than when they are contributing. Given the breadth of the current federal marginal tax brackets, this is not nearly as common as many assume.

Some helpful resources:

<http://www.octfcu.org/retirementfored/roth403.asp>

<http://develop.temple.edu/hr/documents/RothFactSheet.pdf>

<http://www.irs.gov/publications/p590/ch02.html#d0e8996>

<http://www.irs.gov/publications/p571/index.html>

<http://www.milliman.com/expertise/employee-benefits/publications/cab/pdfs/CAB07-13-07-Roth-401k.pdf>