

Effective July 1, 2015, the Roth contribution option is available to all participants in the Commonwealth of Virginia 457 Plan. Here are some frequently asked questions regarding Roth contributions.



1. What are Roth contributions?

These are contributions that you make to your Commonwealth of Virginia 457 Plan account on an after-tax basis. You pay taxes on the contributions now, rather than later. Withdrawals of Roth contributions *and* associated earnings will be tax free if five years have passed since January 1 of the year of your first Roth contribution and if you are at least 59½ years old (or disabled or deceased).



2. What are the advantages of making Roth contributions?

Potential benefits include:

- ✓ Tax-free withdrawals: Qualified withdrawals of Roth assets are not subject to taxes.
- ✓ Tax planning: Having both pre-tax and Roth options available allows you to choose the type of contributions that are the best fit for your lifestyle. (See question 4 for more information.)
- ✓ Compounded earnings: Just like the pre-tax option, your Roth contributions are invested in funds that you choose and any earnings on those contributions are reinvested and included in the calculation of future earnings. Investors with a longer time frame before retirement can especially benefit from this because they have longer to see their compounded interests potentially add up. When you pay taxes up-front, you could withdraw your compounded earnings tax free as long as certain requirements are met.



3. What's the difference between making a Roth contribution to the Commonwealth of Virginia 457 Plan and having a Roth IRA?

Though a Roth IRA also provides tax-free withdrawals in retirement, the rules for a Roth IRA differ in some important ways from Roth contributions to the 457 Plan:

- All 457 Plan participants who are currently employed are eligible to make Roth contributions to the plan. Roth IRAs restrict highly compensated individuals from making contributions.
- The Internal Revenue Service (IRS) annual contribution limit for the Commonwealth of Virginia 457 plan applies to the combination of pre-tax and Roth contributions, so Roth contributions to the plan reduce the amount you can contribute pre-tax. Contributions to a Roth IRA do not count toward the 457 Plan contribution limits for the year. (To view the annual contribution limits, visit www.varetire.org/457, click Plan Info then Contributions.)
- The annual contribution limit for IRAs is lower than the limit for the 457 Plan.
- Investors using a Roth IRA may withdraw funds from their account at any time. Participants may withdraw Roth assets from the Commonwealth of Virginia 457 Plan following certain qualifying events (e.g., separation from service, retirement, unforeseeable emergencies).



4. Who should consider making Roth contributions?

Roth contributions may be most appropriate for participants who expect to be in a higher tax bracket in retirement. Participants pay taxes on the contributions now and benefit from tax-free withdrawals in retirement as long as certain criteria are met.



5. Can participants make both pre-tax and Roth contributions?

Yes. You may make both types of contributions, as long as your total contribution amount does not exceed the annual contribution limits set by the Internal Revenue Service. (To view the annual contribution limits, visit www.varetire.org/457, click Plan Info then Contributions.)



6. What is the maximum amount I may contribute to my Commonwealth of Virginia 457 Plan's Roth account?

The annual limits apply to the combination of pre-tax and Roth contributions that you make to your 457 Plan account for the year.



7. What criteria must be satisfied for a withdrawal of Roth money to be tax free?

Because taxes are paid on the contributions, those amounts are never taxed when withdrawn from the plan. The earnings associated with the Roth contributions may be withdrawn tax free, if the following requirements for a "qualified" distribution are met:

- Five years have passed since January 1 of the year you made your first Roth contribution.
- You are at least age 59½, permanently disabled or the assets are being paid to your beneficiaries following your death.



8. When can I withdraw Roth assets?

Roth assets can be withdrawn whenever a distribution of non-Roth assets is permitted under your plan (for example, separation from service, retirement, unforeseeable emergencies).



9. Can members in the Hybrid Retirement Plan make Roth contributions to the defined contribution component of their plan?

No, hybrid members cannot make Roth contributions to the defined contribution component of the Hybrid Retirement Plan. However, if you are a hybrid member and your employer offers the Commonwealth of Virginia 457 Plan, you can participate and make Roth contributions to the Commonwealth of Virginia 457 Plan.