For Employees of Public Schools and Certain Tax-Exempt Organizations

Designated Roth Accounts
under 401(k), 403(b), or governmental 457(b) plans

A designated Roth account is a separate account under 401(k), 403(b), or governmental 457(b) plans:
- to which designated Roth contributions are made, and
- for which separate accounting of contributions, gains, and losses is maintained.

Advantages of a designated Roth account include:
- Tax deferral on contributions, gains, and losses
- No required minimum distribution
- Tax-free qualified distributions

Which types of retirement accounts are right for you?

<table>
<thead>
<tr>
<th>PLAN FEATURE</th>
<th>DESIGNATED ROTH ACCOUNT</th>
<th>ROTH IRA</th>
<th>PRE-TAX ELECTIVE CONTRIBUTION ACCOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>Designated Roth employee elective contributions are made with after-tax dollars.</td>
<td>Roth IRA contributions are made with after-tax dollars.</td>
<td>Traditional pre-tax employee elective contributions are made with pre-tax dollars.</td>
</tr>
<tr>
<td>Income Limits</td>
<td>No income limitation to participate.</td>
<td>Income limits¹:</td>
<td>No income limitation to participate.</td>
</tr>
<tr>
<td>Maximum Elective Contributions</td>
<td>Combined² employee elective contributions limited to:</td>
<td>Contribution limited to:</td>
<td>Same combined limit as designated Roth account.</td>
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<tr>
<td></td>
<td>• $17,000 ($22,500 for individuals 50 or over).</td>
<td>• $5,500 ($6,000 for individuals 50 or over).</td>
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</tr>
<tr>
<td>Taxation of Withdrawals</td>
<td>A withdrawal of contributions and earnings is not taxed if it is a qualified distribution—the account is held for at least 5 years and made:</td>
<td>Same as designated Roth account; and can have a qualified distribution for a first-time home purchase.</td>
<td>Withdrawals of contributions and earnings are subject to federal and most state income taxes.</td>
</tr>
<tr>
<td>Required Distributions</td>
<td>Distributions must begin no later than age 70½, unless still working and not a 5% owner.</td>
<td>No requirement to start taking distributions while owner is alive.</td>
<td>Same as designated Roth account.</td>
</tr>
</tbody>
</table>

¹ All dollar limitations are for 2012. Visit www.irs.gov/retirement for current updates on dollar limitations.² This limitation is by individual, rather than by plan. Although contributions are made with after-tax dollars, the account must allow for separate accounting of contributions, gains, and losses maintained.

Is it better for you to pay the tax on your retirement now, while you’re working, or later during retirement?

Note: Designated Roth contributions cannot be made to SIMPLE IRA or SARSEP plans.
What are general concerns about designated Roth contributions?

Q. Can I make both pre-tax elective and designated Roth contributions in the same year?
A. Yes. You can contribute to both a designated Roth account and a pre-tax elective contribution account in the same year in any proportion you choose. However, the combined amount of all elective contributions you make in any one year is limited to $17,000. An additional $5,500 in catch-up contributions, for persons 50 or older, can also be allocated between the pre-tax and designated Roth accounts. Information on special catch-ups under 403(b) and governmental 457(b) plans is available at www.irs.gov/retirement.

Q. What should you know about designated Roth account distributions?
A. A qualified distribution is generally a distribution made after a 5-taxable-year period of participation, and is either:
- made on or after the date you attain age 59½,
- made on or after your death, or
- attributable to your being disabled.

Q. Can I change my mind and have designated Roth contributions treated as pre-tax elective contributions?
A. No. Once you designate contributions as Roth contributions, you cannot later change them to pre-tax elective contributions.

Q. Does my employer need to establish a new account under my 401(k), 403(b), or governmental 457(b) plan to receive my designated Roth contributions?
A. Yes. Designated Roth contributions must be kept completely separate from previous and current 401(k), 403(b), or governmental 457(b) pre-tax elective contributions. Your employer must establish a separate account for each participant making designated Roth contributions.

Q. Can I make both pre-tax and designated Roth contributions in the same year?
A. Yes. Your employer can make matching contributions to your designated Roth account. The matching contributions must be allocated to a pre-tax account.

Q. Can my employer match my designated Roth contributions?
A. Yes. Designated Roth contributions must be kept completely separate from previous and current 401(k), 403(b), or governmental 457(b) plans. Your employer can offer in-plan Roth rollovers. However, the individual making the in-plan Roth rollover must be eligible for a distribution from the non-Roth account. Participants, surviving spouse beneficiaries, and alternate payees (who are current or former spouses) are eligible to make an in-plan Roth rollover in a plan offering these rollovers. However, the individual making the in-plan Roth rollover must be eligible for a distribution from the non-Roth account.

Q. Can I make both pre-tax elective and designated Roth contributions in the same year?
A. Yes. You can contribute to both a designated Roth account and a pre-tax elective contribution account in the same year in any proportion you choose. However, the combined amount of all elective contributions you make in any one year is limited to $17,000. An additional $5,500 in catch-up contributions, for persons 50 or older, can also be allocated between the pre-tax and designated Roth accounts. Information on special catch-ups under 403(b) and governmental 457(b) plans is available at www.irs.gov/retirement.

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A. Yes. Designated Roth contributions must be kept completely separate from previous and current 401(k), 403(b), or governmental 457(b) pre-tax elective contributions. Your employer must establish a separate account for each participant making designated Roth contributions.

Example

If a nonqualified distribution of $5,000 is made from your designated Roth account when the account consists of $9,400 of designated Roth contributions and $600 of earnings, the distribution consists of $4,700 of designated Roth contributions (that are not includible in your gross income) and $300 of earnings (that are includible in your gross income).

Q. What is a qualified distribution from a designated Roth account?
A. A qualified distribution is generally a distribution made after a 5-taxable-year period of participation, and is either:
- made on or after the date you attain age 59½,
- made on or after your death, or
- attributable to your being disabled.

Q. What should you know about designated Roth account distributions?
A. Since I make designated Roth contributions from after-tax income (already taxed income), can I make tax-free withdrawals from my designated Roth account at any time?
A. No. The same restrictions on withdrawals that apply to pre-tax elective contributions also apply to designated Roth contributions. If your plan permits distributions from accounts because of hardship, you may choose to receive a hardship distribution from your designated Roth account. The hardship distribution will consist of a pro-rata share of earnings and basis and the earnings portion will be included in gross income unless you have had the designated Roth account for 5 years and are either disabled or over age 59½.

Q. Is a distribution from my designated Roth account for reasons beyond my control (e.g., plan termination or severance from employment) a qualified distribution even though it does not meet the criteria for a qualified distribution?
A. No. If you have not held the account for more than 5 years or if the distribution is not made after death, disability, or age 59½, then the distribution is not a qualified distribution. However, you could roll the distribution over into a designated Roth account in another plan or into your Roth IRA. A transfer to another designated Roth account must be made through a direct rollover.

Q. What is an “in-plan Roth rollover”?
A. An in-plan Roth rollover is a distribution from one or more of your retirement accounts (that don’t hold designated Roth contributions) that you roll over to your designated Roth account within the same plan.

Q. Which retirement plans may offer in-plan Roth rollovers?
A. Any plan that permits designated Roth contributions can offer in-plan Roth rollovers.

Q. Who is eligible to make an in-plan Roth rollover?
A. Participants, surviving spouse beneficiaries, and alternate payees (who are current or former spouses) are eligible to make an in-plan Roth rollover in a plan offering these rollovers. However, the individual making the in-plan Roth rollover must be eligible for a distribution from the non-Roth account.

Q. How can I make an in-plan Roth rollover?
A. If your plan allows in-plan Roth rollovers, you can make:
- a direct rollover — by asking the plan trustee to transfer an eligible rollover distribution from your non-Roth account or accounts in the plan to your designated Roth account in the same plan; or
- a 60-day rollover — by having the plan distribute an eligible rollover distribution to you from your non-Roth account or accounts in the plan and then deposing all or part of that distribution to your designated Roth account in the same plan within 60 days. Since designated Roth accounts hold only after-tax contributions (and earnings on those contributions), any untaxed amount rolled into a designated Roth account from a non-Roth account must be included in your gross income.