

## 403(b) Roth – Frequently Asked Questions

Beginning January 1, 2009, Vanderbilt will offer a 403(b) Roth after-tax retirement option. The following information may help you decide if this is the right retirement option for you.

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## 403(b) Roth Frequently Asked Questions

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### *General Questions Regarding Designated Roth Accounts in Retirement Plans*

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#### 1. What is a Roth 403(b)?

This is an after-tax retirement benefit that allows you to pay taxes now on the money you set aside, instead of paying taxes at the time of withdrawal. You can designate some or all of your elective contributions as Roth contributions, (which are included in gross income) rather than traditional, pre-tax elective contributions (which are subtracted from gross income).

#### 2. Will I benefit from the Roth 403(b)?

You will benefit from the Roth 403(b) if:

- You have a long time until retirement. This gives you longer to accumulate tax-free earnings.
- You are a highly compensated employee who is not eligible for a Roth IRA.
- You want to leave tax-free money to your beneficiaries.
- You are about to retire and want some immediate withdrawals to be tax-free.

#### 3. Who might not benefit from the Roth 403(b)?

You might not benefit if:

- You expect Social Security to be your main source of retirement income and your tax rate is likely to be less in retirement.
- You are a worker earning between \$20,000 and \$50,000 who qualifies for certain valuable tax credits, such as the earned income tax credit.

#### 4. Is Roth 403(b) participation limited by household income?

No. Unlike Roth IRA's, there are no maximum income limits for Roth 403(b) contributions.

### *Designated Roth Contributions*

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#### 5. What is a designated Roth contribution?

A designated Roth contribution is an elective deferral to a 403(b) plan that you may elect as not excludable from your gross income and deposited into a designated Roth account under the plan. The contribution is included in your gross income and is subject to all applicable wage withholding requirements.

#### 6. How do I elect Roth 403(b) contributions?

If you are currently contributing to the 403(b) and with Vanguard, you need only to complete the 2009 Retirement Plan Election Form and submit it into the Benefits Office.

If you are contributing for the first time to the Plan or for the first time with Vanguard, complete the 2009 Retirement Plan Election Form **and** the Vanguard enrollment form and submit them both to the Benefits Office to start your contributions.

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Changes to contributions begin the first of the month after the form(s) is received in the Benefits Office.

If you would like more information about the Roth 403(b) offerings and help determining if this deferral option is right for you, you should contact Vanguard directly by calling 1-800-523-1188 or by visiting their website at [www.vanguard.com](http://www.vanguard.com).

**7. Can I split my deferral election, with some of the deferral being contributed as pre-tax and some of the deferral being contributed as Roth after-tax?**

Yes. The plan allows you to elect a combination of both traditional pre-tax and Roth after-tax elective deferrals. However, the combined amount contributed between Basic and Supplemental contributions in any one year is limited by the Section 402(g) limit in the federal Internal Revenue Code - \$16,500 for 2009 (plus an additional \$5,500 in catch-up contributions if age 50 or older). You can make this designation on the 2009 Retirement Plan Election Form you submit to the Benefits Office.

**8. How do Roth after-tax contributions affect the annual IRS contribution limits?**

The combination of traditional pre-tax and Roth after tax elective deferrals in the Vanderbilt University Retirement Plan cannot exceed applicable federal Internal Revenue Code limits. For 2009 the IRS 402(g) elective deferral limit is \$16,500 or \$22,000 if you are 50 or older in 2009.

**9. Do I have the same investment options available for Roth after-tax contributions as I do with the traditional pre-tax contributions?**

Roth after-tax contributions are available through Vanguard only and only with voluntary contributions, not the mandatory 3%. The same Vanguard investment funds are available for both pre-tax and Roth.

**10. Will Vanderbilt make matching contributions on my designated Roth contributions? Can the matching contributions be allocated to my designated Roth account?**

If you designate your Basic contribution of 2% of compensation as a Roth contribution, Vanderbilt will match that contribution at 2%. However, only your portion can be allocated to a Roth account. The matching contributions must be allocated to a pre-tax account, just as matching contributions on traditional, pre-tax elective contributions are.

**11. Must I make the Roth election at the beginning of the year?**

No. You may make changes to your retirement plan elections once per calendar quarter. A Roth election must be in place before any money can be placed in a designated Roth account.

**12. If I start making designated Roth contributions at the beginning of the year and later change my mind and want those contributions treated as pre-tax elective contributions, can they be re-characterized and transferred from the designated Roth account to the traditional, pre-tax account?**

No, your Roth contributions are unchangeable as you have already paid federal income tax on that money. Once they are designated as Roth contributions, they cannot later be changed to pre-tax elective contributions.

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### 13. How do Roth after-tax contributions affect my paycheck?

Unlike pre-tax contributions, Roth after-tax contributions do not reduce your taxable income. Therefore, if you elect Roth after-tax contributions, your net pay is reduced due to additional tax withholdings. See the following hypothetical example:

Assume eligible gross compensation is \$60,000 per year or \$5,000 per month with a 25% federal tax withholding rate.

	Pre-Tax Contributions	Roth After-tax Contributions
Contribution	10%	10%
Compensation	\$60,000	\$60,000
Less: Pre-tax contribution for the year	(\$6,000)	\$0
Taxable income	\$54,000	\$60,000
Less: income taxes (25%)	(\$13,500)	(\$15,000)
Less: Roth 403(b) contribution	\$0	(\$6,000)
Net after-tax (take home pay)	\$40,500	\$39,000
Difference in take home pay:		(\$1,500)

### *Distributions from Designated Roth Accounts*

### 14. What are the Qualified Distribution criteria for a Roth 403(b)?

The account must have been established for at least 5 years (5-taxable-year period), and the withdrawal must meet one of the following conditions:

- Be taken after age 59½
- Be as a result of permanent disability or death

### 15. What is a 5-taxable-year period of participation and how is it calculated?

The 5-taxable-year period of participation begins on the first day of your taxable year for which you first had designated Roth contributions made to the plan and ends when 5 consecutive taxable years have passed.

### 16. What if I want to take a distribution of my Roth after-tax contributions and associated earnings before I have met the Qualified Distribution criteria?

If a distribution of your Roth after-tax account is made before it has met the Qualified Distribution criteria, the amount of the distribution that represents income on you account is includable in gross income. The amount that represents your designated Roth contribution is not taxable.

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For 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 taxable income) and \$300 of earnings (that are includible in your gross taxable income).

Penalties for early withdrawal still apply.

### 17. Does electing Roth 403(b) after-tax contributions affect when I can take money from the plan?

No, the rules governing when you can take a withdrawal from the plan have not changed. Please see the Retirement Plan Summary Plan Description for more detailed information. The Summary Plan Description is available on the HR Website (<http://hr.vanderbilt.edu/forms>), or in person at HR Express, 2525 West End Ave, second floor, Monday - Friday 7:30 a.m. to 5:30 p.m.

### 18. What distribution/rollover options are available to me for my Roth 403(b) balance?

You have the same distribution options for your Roth 403(b) balance as you do for your 403(b) pre-tax balance. Please note that Roth 403(b) accounts may only be rolled over into another Roth 403(b) account or a Roth IRA.

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The IRS has published frequently asked questions (FAQs) regarding Roth contributions on their website ([www.irs.gov](http://www.irs.gov), search for "FAQ regarding Roth"). Participants may find this a helpful resource.

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Office of Benefits Administration  
2525 West End Ave  
Nashville, TN 37203  
615.322.8330