

# Frequently asked questions about a Roth 403(b) and a Traditional 403(b)



Is a Roth 403(b) right for you? The following frequently asked questions help explain a Roth 403(b) and how it differs from a traditional 403(b) in the Nazarene 403(b) Retirement Savings Plan.

## 1. What are Roth 403(b) contributions?

You may designate a percentage of your paycheck to a workplace 403(b) Roth account. Roth contributions are considered optional and are made on an *after-tax* basis. Roth 403(b) accounts were designed to combine the benefits of saving in a tax-deferred workplace savings plan with the advantage of avoiding taxes on your money when you receive distributions in retirement.

When you retire or leave your employer, earnings on your Roth 403(b) can be withdrawn tax free as long as it has been five tax years since your first Roth contribution and you are at least 59½ years old.

In the event of your death, beneficiaries may be able to receive distributions tax free if you started making Roth contributions earlier than five tax years prior to the distribution. In the event of disability, your earnings can be withdrawn tax free if the date of withdrawal has been five tax years from your first Roth contribution.

Roth 403(b) accounts fall under the same IRS limits as pretax contributions to the traditional 403(b) plan, so each dollar of a Roth contribution reduces the amount that can be contributed pretax (and vice versa).

- In 2022, the total combined IRS contribution limit for after-tax Roth and/or traditional pretax Nazarene 403(b) contributions is \$20,500.
- If you are age 50 or older in the calendar year, you may make an additional **catch-up contribution** of \$6,500 in 2022, bringing your total pretax and/or Roth contribution to \$27,000 for the year.

## 2. What are the similarities and differences between the Roth 403(b) and the traditional Nazarene 403(b)?

### Ways in which they are similar:

- You elect how much of your salary you wish to contribute.
- Contributions are based on your eligible compensation.
- Contributions cannot exceed IRS limits.
- Roth 403(b) distributions may be received tax-free, and traditional 403(b) distributions may be received by ministers as tax-free housing allowance, subject to IRS limits.
- Both are subject to required minimum distributions (RMD).

### **Ways in which they are different:**

- Roth contributions are made after tax.
- Traditional 403(b) contributions are made pretax, providing ministers who pay SECA tax an immediate 15.3% tax savings.
- Roth distributions may be received tax free regardless of the minister's housing allowance situation.
- Roth distributions may be passed tax free to a spouse and heirs.
- The tax advantage of a minister's housing allowance within a traditional 403(b) is not afforded to a spouse or heirs.

### **3. Who might want to consider the Roth 403(b) after-tax option?**

- Young workers who have more time to accumulate tax-free earnings.
- Workers who expect to pay a higher tax rate once they reach retirement.
- Workers who want to leave tax-free money to their spouse or other beneficiaries.

### **4. Who might want to consider the traditional Nazarene 403(b) pretax option?**

- Workers who expect to be in a lower tax bracket after retirement.
- Ministers who pay SECA taxes, as the immediate 15.3% savings received in the pretax option would not be realized in the Roth option.

### **5. How do savings affect an Employer Match?**

Whether you contribute on a pretax traditional 403(b) or after-tax Roth 403(b) basis will not affect your ability to receive a match from your employer. Individual employers may choose whether or not to offer a match, so check with them to find out if one is available. If so, it will be made to the traditional Nazarene 403(b), not to the Roth.

The Church of the Nazarene will continue to pay Annual Pension Supplements (APS) to eligible ministers only through the traditional 403(b) plan.

The table below summarizes the different types of contributions and the tax implications of each.

	<b>Traditional 403(b) Contributions</b>	<b>Roth 403(b) Contributions</b>	<b>EMPLOYER CONTRIBUTIONS</b>
Are contributions taxed when made?	No	Yes	No
Are contributions taxed when distributed?	Yes*	No	Yes**
Are earnings taxed when distributed?	Yes*	No <sup>1</sup>	Yes**
What are the IRS annual limits?	\$20,500 for 2022 for employee pretax and Roth contributions		\$61,000 for 2022, including employee pretax, Roth, after-tax, AND employer contributions
What is the catch-up contribution for a person age 50 or older?	An additional \$6,500 for 2022.		
	A catch-up contribution may be made on a pretax or Roth basis and is in addition to the combined traditional and Roth 403(b) \$20,500 annual limit, as well as the \$61,000 annual additional limit, which applies to the total contributions made to your 403(b) across traditional and Roth 403(b) employer contributions.		

\*Distributions to ministers in retirement may be received as tax-free housing allowance, subject to IRS limits.

\*\*Employer contributions may not be made to the Nazarene Roth 403(b), but will be placed in the traditional 403(b) plan. At retirement, distributions of contributions and earnings may be received as tax-free housing allowance, subject to IRS limits.

## 6. How can I maximize my contributions using a combination of pretax, Roth 403(b), and (if age 50 or older and eligible) catch-up contributions?

	<b>AGE 49 OR YOUNGER</b>	<b>AGE 50 OR OLDER</b>
1. Contribute the maximum amount on a pretax and/or Roth basis.	\$20,500	\$20,500
2. Contribute the maximum amount on an after-tax basis, up to the annual additions limit of \$61,000.	\$40,500 <sup>†</sup>	\$40,500 <sup>†</sup>
3. Take advantage of the additional catch-up contribution if age 50 or older.	N/A	\$6,500
<b>Total contribution</b>	<b>\$61,000</b>	<b>\$67,500</b>

Your after-tax contribution amount may be reduced by the amount of employer contributions to your plan account, if applicable.



Investing involves risk, including risk of loss.

A distribution from a Roth 403(b) is tax free and penalty free, provided that the five-year aging requirement has been satisfied and one of the following conditions is met: age 59½, disability, or death.

Fidelity does not provide legal or tax advice. The information herein is general in nature and should not be considered legal or tax advice. Consult an attorney or tax professional regarding your specific situation.

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