

Roth 403(b)

Mennonite Retirement Trust



Everence®

Employers can offer 403(b) plan participants the ability to make Roth 403(b) contributions. If your employer offers this choice, Roth contributions could play an important role in maximizing your retirement income.

What is a Roth 403(b)?

A Roth 403(b) is simply an option within an existing 403(b) plan that allows you to make contributions to your retirement plan on an after-tax basis, just like Roth IRA contributions. Although you will not see any pretax benefits, a Roth 403(b) allows you to withdraw your funds tax-free upon retirement if certain conditions are met.

Who can contribute?

Anyone who is eligible to participate in a 403(b) plan can make Roth contributions, regardless of salary level.

How much can I contribute?

The maximum amount you can contribute is \$22,500. If you are age 50 or older, you can make "catch-up" contributions up to an additional \$7,500. These amounts may be adjusted each year. You can choose to have all of your personal contributions placed in a Roth 403(b) account, in a traditional 403(b) account, or divided between the two.

Can I also contribute to a Roth IRA?

Yes. Your participation in a Roth 403(b) plan has no impact on your ability to contribute to a Roth IRA (assuming you are eligible to contribute to a Roth IRA). The maximum amount you can contribute to a Roth IRA for the 2023 tax year is \$6,500 (or \$7,500 if you are age 50 or older). These amounts may be adjusted each year.

Should I make pretax or Roth 403(b) contributions?

If you choose to make pretax contributions to a traditional 403(b), you will have more take-home pay today because less taxes are withheld. But your contributions and investment earnings are fully taxable when you withdraw them in retirement.

On the other hand, Roth 403(b) contributions are made after taxes, meaning you will reduce your take-home pay by the amount of taxes withheld. However, you will not pay taxes on your contributions and investment earnings upon withdrawal when you reach retirement.

The best option for you depends on your personal situation. In general, Roth 403(b) contributions most likely will benefit those who expect higher tax rates upon retirement, individuals interested in leaving tax-free money to their heirs, and those who would prefer to have tax-free withdrawals at retirement.

Are distributions really tax free?

Because your Roth 403(b) contributions are made on an after-tax basis, they are always free from federal income tax when withdrawn from the plan. But the investment earnings on your Roth contributions are tax free only if you meet the requirements for a "qualified distribution."

In general, a distribution is considered qualified if it is taken at least five years after your first Roth 403(b) contribution, and after you reach age 59½, become disabled, or pass away.

If you withdraw any money from your account and these requirements aren't met, the earnings will be taxable and subject to a 10% early distribution penalty, unless you are 59½ or older, or another exception applies. Unlike a Roth IRA, distributions are pro-rated between Roth contributions (nontaxable) and earnings (taxable).

If you withdraw funds, you can generally avoid taxation by rolling your distribution over to a Roth IRA or another employer's 403(b) plan if that plan accepts Roth rollovers. State income tax treatment of Roth 403(b) contributions may differ from the federal rules.

What about employer contributions?

Employers cannot contribute to a Roth account. Employer contributions are made on a pretax basis, even if they match your Roth contributions – meaning employer contributions and investment earnings are not taxed until you withdraw them from your plan. If your employer allows it, you can convert pretax contributions to a Roth account by doing an in-plan Roth rollover.

What else do I need to know?

Like traditional 403(b) contributions, your Roth 403(b) contributions can be withdrawn if you incur a hardship prior to terminating employment, becoming disabled, or passing away. However, your investment earnings cannot be withdrawn.

Also, unlike Roth IRAs, you must begin taking distributions from your Roth 403(b) plan after you reach age 72 (70½ if you were born prior to July 1, 1949) or retire, whichever is later. Keep in mind, though, that you generally can rollover your Roth 403(b) money into a Roth IRA if you don't need or want the distributions.

This communication should not be considered as an offer to sell or buy any securities, provide investment advice, or make investment recommendations. This information is being provided with the understanding that it is not intended to be interpreted as specific legal or tax advice. Individuals are encouraged to consult with a professional in regards to legal, tax, and/or investment issues.

Mennonite Retirement Trust is sponsored by Mennonite Church USA and is available to other Anabaptist congregations and organizations. It is administered by Everence, 1110 N. Main St., P.O. Box 483, Goshen, IN, 46527, 800-348-7468, 574-533-9511, everence.com/mrt.