



# There's a new way to invest in your City of Tempe Defined Contribution Plan.

## Your Guide to Roth 401k Contributions

You have the opportunity to designate all or part of your contributions to your governmental defined contribution plan as after-tax Roth 401k contributions.

When you contribute to a Roth 401k, your contributions are made with after tax dollars but withdrawals of contributions and earnings can be tax-free during retirement if certain conditions are met.<sup>6</sup>

If you wish, you can even split your contributions between traditional, pre-tax 401k contributions and Roth 401k contributions.

**Q: What's the benefit of designating some or all of your contributions as Roth?**

**A: It may give you the opportunity to pay taxes on your contributions now and avoid taxes later.**

	Pre-Tax 401k contributions	After-Tax Roth 401k contributions
Pre-tax income	\$60,000	\$60,000
Amount contributed	\$8,000 pre-tax	\$6,000 after-tax <sup>1</sup>
Net Income after contributions	\$52,000	\$52,000 <sup>2</sup>
<b>Hypothetical after tax account value in 20 years assuming a 7% annual return*</b>		
Tax rate remains the same (25%) at time of distribution	\$23,218 <sup>3</sup>	\$23,218
Tax rate decreases to 15% at time of distribution	\$26,314 <sup>4</sup>	\$23,218
Tax rate increases to 28% at time of distribution	\$22,289 <sup>5</sup>	\$23,218

This example is for illustration purposes only. It compares a 15%, 25%, or 28% tax bracket at the time of distribution and an average total rate of return of 7% compounded annually. Applicable tax rates may be significantly different from when the contribution is made compared to the time of distribution. The Roth account assumes the distribution is a qualified distribution. \*Based on one time contribution amounts above.

<sup>1</sup>Equivalent to \$8,000 after taxes, assuming 25% tax bracket

<sup>2</sup>Net amount after \$2,000 paid in taxes for Roth after-tax contribution

<sup>3</sup>Net amount after taxes paid (25% bracket), assuming the distribution is a qualified distribution

<sup>4</sup>Net amount after taxes paid (15% bracket), assuming the distribution is a qualified distribution

<sup>5</sup>Net amount after taxes paid (28% bracket), assuming the distribution is a qualified distribution

## What's the difference?

	Traditional (pre-tax) 401k	Roth 401k
Current contribution limit	Combined \$18,500	
Current catch-up contribution limit – for those age 50 and older	Combined \$6,000	
Contribution taxable in year contributed	No	Yes
Contribution taxable in year distributed	Yes	No
Contribution earnings taxable in year distributed	Yes	No <sup>6</sup>
Your income could limit your contribution amount	No	No

Source: IRS.gov

## Is a Roth 401k right for you?

You may want to consider making Roth 401k contributions if you:

- You want to take advantage of the potential tax-free withdrawals provided for with a Roth 401k account
- Are unable to contribute to a Roth IRA because of your income
- Are looking for an estate-planning tool to leave assets tax-free to heirs

If you decide contributing to a Roth 401k account makes sense for you, we're here to help. Call me today!

<sup>6</sup> Contributions and earnings from a Roth are not taxable if the distribution is made five years or more after January 1 of the first year that the participant made a Roth contribution to the plan AND the distribution is made on the account of the participant's death, disability or the attainment of age 59½.

Neither Nationwide nor its representatives may offer tax or legal advice. Consult with your own counsel before making any decisions about contributing or converting your Plan assets to Roth 401k.

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NRM-8237AZ-TE (02/18)

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