



**ROTH ACCOUNT**

build your **NEST EGG**



Deferred Compensation Plan

# **ROTH CONTRIBUTIONS OFFER TAX-FREE WITHDRAWALS WHEN YOU RETIRE.**

The RSA-1 Roth account is a voluntary after-tax contribution option. You can elect to make designated Roth contributions of money from your paycheck that has already been taxed. This helps you build a nest egg where you pay no taxes on the money you withdraw in retirement. Your qualified distributions of contributions and their earnings, if any, come out tax-free. Less tax on plan distributions could mean higher net distributions in retirement.

# **BENEFITS OF A ROTH ACCOUNT**

## ***Tax-Free Withdrawals***

A Roth account allows you to withdraw your earnings tax-free if your account has been established for at least five years, you are at least 59½ years old, and you have separated from service. Because your contributions are from after-tax (nondeductible) money, you can withdraw your contributions without taxes or penalties (with the possible exception of amounts converted or rolled over). In addition, earnings and contributions can pass on to your heirs income tax-free.

## ***Conversion From a Pre-Tax Account or Employer-Sponsored Plan***

One of the great tax planning tools available is a conversion from a Pre-Tax account, which is already offered by RSA-1, or employer-sponsored plan to a Roth account. This allows you to pay income taxes on a Pre-Tax account or employer-sponsored plan now and convert the money into your Roth account.

## ***No Required Minimum Distributions During Your Lifetime***

The Roth account can be a worthwhile estate planning tool because you are not required to take distributions during your lifetime and it can pass on to your beneficiaries tax-free. However, beneficiaries of an inherited Roth account may be required to take minimum distributions.

# WHICH ACCOUNT TYPE IS RIGHT FOR YOU?

## PRE-TAX ACCOUNT

*(Already offered by RSA-1)*

Pay taxes when you withdraw during retirement.

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Contributions are deducted from your salary before taxes are taken, which can reduce your taxable income.

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Distributions are taxable as current income when withdrawn. Distributions can be made at any age upon separation from service.

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Distributions begin at age 73 or retirement. Penalty tax may apply if amount is not taken in a timely manner.

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## ROTH ACCOUNT

No taxes when you withdraw during retirement.

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Contributions are subject to federal (and state or local, where applicable) income tax withholding.

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Distributions at retirement are tax-free as long as you have satisfied the five-year holding period, have separated from service, and are age 59½ or older, disabled, or deceased.

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There are no Required Minimum Distributions from Roth accounts.

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## WHAT ELSE SHOULD I KNOW?

- A Roth qualified distribution must meet a three-prong test:
  - A 5-year holding period,
  - A distribution taken on or after age 59½, and
  - Separation from service
- The five-year holding period determines when you can take tax-free income. The five-year rule means that your first Roth contribution must have been made at least five years before withdrawing it.
- The longer you leave your Roth contributions and earnings in the plan and the higher you expect your taxes to be in the future, the more you may be able to benefit from the tax-free income the Roth option can provide.
- Making Roth contributions could potentially reduce your take-home pay since they won't reduce your current taxable income. See the example below.

	Pre-Tax Account	Roth Account
Gross Income	\$50,000	\$50,000
Pre-Tax Contribution	-\$5,000	N/A
Taxable Income	\$45,000	\$50,000
25% Income Taxes	-\$11,250	-\$12,500
After-Tax Income	\$33,750	\$37,500
Roth Contribution	N/A	-\$5,000
Take-Home Pay	\$33,750	\$32,500

# ROTH ACCOUNT FREQUENTLY ASKED QUESTIONS

## CONTRIBUTIONS

### ***What is a designated Roth contribution?***

A designated Roth contribution is a type of elective deferral that employees can make to their governmental 457(b) RSA-1 supplemental retirement plan.

With a designated Roth contribution, the member irrevocably designates the deferral as an after-tax contribution that is deposited into a designated Roth account. The employer includes the amount of the designated Roth contribution in the employee's gross income at the time the employee would have otherwise received the amount in cash if the employee had not made the election. It is subject to all applicable wage-withholding requirements.

### ***Can I make both Pre-Tax and designated Roth contributions in the same year?***

Yes, you can contribute to both the RSA-1 Roth account and the traditional, Pre-Tax RSA-1 account in the same year in any proportion you choose.

### ***Is there a limit on how much I may contribute to my Roth account?***

Yes, the combined amount contributed to all Roth accounts **and** Pre-Tax accounts in any one year for any individual is limited (under IRC Section 402(g)). **The limit is \$23,500 in 2025.** These limits may be increased by the IRS in later years to reflect cost-of-living adjustments.

### ***Can I change my mind and have designated Roth contributions treated as Pre-Tax elective contributions?***

No. Once you designate contributions as Roth contributions, you cannot later change them to Pre-Tax elective contributions.

### ***Can I convert all or a portion of my Pre-Tax funds to a Roth account?***

Yes. You can convert any amount you would like. However, this election is irrevocable, and the funds will be considered as income in the tax year that the conversion was made.

### ***How can I invest my Roth Funds?***

You have the same options as the Pre-Tax account which are Fixed Income, Equity, and Short-Term Investment Fund.



## DISTRIBUTION

### ***What is a qualified distribution from a Roth account?***

A qualified distribution of designated Roth contributions is excludable from gross income. A qualified distribution is one that is made at least five years after the year of the participant's first designated Roth contribution (counting the first year as part of the five) and is made after the participant turns age 59½ and separates from service.

There are exceptions to this rule based on account of the participant's disability, or after the participant's death.

### ***What is a 5-taxable-year period of participation? How is it calculated?***

The 5-taxable-year period of participation begins on the first day of your taxable year for which you first made designated Roth contributions to the plan. It ends when five consecutive taxable years have passed. If you make a direct rollover from a Roth account under another plan, the 5-taxable-year period for the recipient plan begins on the first day of the taxable year that you made designated Roth contributions to the other plan, if earlier.

***Since I make designated Roth contributions from after-tax income, can I make tax-free withdrawals from my Roth account at any time?***

It depends. The same restrictions on withdrawals that apply to Pre-Tax elective contributions also apply to designated Roth contributions. However, if the withdrawal of Roth contributions is a qualified distribution, then the withdrawal will be tax free.

***What happens if I take a distribution from my Roth account before the end of the 5-taxable-year period?***

If you take a distribution from your Roth account before the end of the 5-taxable-year period, it is a nonqualified distribution. You must include the earnings portion of the nonqualified distribution in gross income. However, the basis (or contribution) portion of the nonqualified distribution is not included in gross income.

For example, if a nonqualified distribution of \$5,000 is made from your Roth account and this amount consists of \$4,700 of Roth contributions and \$300 of earnings, the \$300 of earnings would be included in your gross income.

## CONVERSIONS

### *What is an “in-plan Roth conversion?”*

An in-plan Roth conversion is a conversion from your Pre-Tax RSA-1 account to your Roth account in the RSA-1 plan.

### *How are in-plan Roth conversions taxed?*

The total amount of the conversion will be added to the gross income for the tax year in which you convert it.

For more information,  
call **877.517.0020**,  
email **rsa1info@rsa-al.gov**,  
or visit us online at **rsa-al.gov**.



## **RSA-1 DEFERRED COMPENSATION PLAN**

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