



About Designated Roth Contributions

WHAT ARE ROTH CONTRIBUTIONS?

When a participant designates contributions as Roth, those contributions are deducted from their pay on an after-tax basis, unlike regular pre-tax deferral contributions that reduce gross taxable income. Contributions grow tax deferred, and when a distribution is *qualified*, it is not subject to federal or state income taxes. The availability of tax-free distributions is what makes the Roth feature attractive.

WHAT IS A QUALIFIED DISTRIBUTION?

Roth contributions and pre-tax deferrals are subject to the same Plan distribution rules. For a distribution to be considered *qualified*, it must meet two requirements:

1. The distribution must be made after age 59½, death or disability.
2. The first Roth contribution must have been made to the Plan at least five tax years before distribution. The period starts at the beginning of the year the first Roth contribution is made and is met on the fifth anniversary of that date. For example, if a participant made their first Roth contribution on July 25, 2016, the tax year would start on January 1, 2016. The five-year requirement would be met on January 1, 2021.

If the distribution is *not qualified*, the portion attributed to the Roth contributions is not subject to income tax since it was already taxed when it was made. The growth portion of a distribution would be taxable. For example, if 25% of the Roth account value was due to growth, 25% of any distribution would be considered taxable.

HOW ARE ROTH CONTRIBUTIONS SHOWN IN MY ACCOUNT?

Roth contributions are held in a separate subaccount within your Plan account, as required by law. Although separately recorded, they will be included in your quarterly statements and in all summaries and totals. There are no additional Plan fees related to the Roth subaccount.

HOW MUCH CAN I CONTRIBUTE?

Roth contributions, combined with pre-tax deferrals, can be made up to Plan limits. Participants choose how to allocate deferrals in dollars between pre-tax and Roth contributions. For example, a participant could split a \$500 bi-weekly deferral by putting \$300 in pre-tax and designating \$200 as Roth contribution. Participants may change how they split contributions at any time. Once a contribution is made, it cannot be re-classified.

2016 Deferral Limits

Regular Deferrals	\$18,000
Age 50 and Over	\$24,000
Special 457 Catch-up	Up to \$36,000

Source: www.irs.gov

Investing involves market risk, including possible loss of principal.

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HOW ARE MY ROTH CONTRIBUTIONS INVESTED?

Investment directions on file apply to both pre-tax and Roth contributions. Once contributions have been deposited, existing balances may be exchanged among available Plan investment options.

WHAT ARE THE RULES REGARDING DISTRIBUTIONS?

Required Minimum Distributions apply to both pre-tax and Roth subaccounts, but the participant may choose to take distributions from either or both sources. The participant may also choose the sources of funds for partial lump sum and installment distributions, as well as for Unforeseeable Emergency withdrawals.

HOW DO ROTH DEFERRALS AND PRE-TAX DEFERRALS COMPARE?

The primary advantage of Roth deferrals is the potential for tax-free distributions. Even in retirement, income taxes can be significant, since pensions, Social Security and other types of income are likely to be subject to taxation. Income tax credits and deductions, as well as some governmental benefits, may be reduced if taxable income is high. Having sources to draw upon that are not subject to income tax could be very helpful.

The primary disadvantage of Roth deferrals is that contributions do not reduce current income taxes. There are very few tax deductions available to most taxpayers, and many deductions, credits and exemptions may be reduced based on the level of taxable income. For some participants, income-tax savings is an important part of making contributions affordable. Although pre-tax deferrals will result in taxable distributions in the future, planning may limit the impact of those taxes, and distributions are not required until the participant attains age 70½, allowing for extended tax deferral. Saving taxes when you are subject to high rates, such as in your working years, and paying them at lower rates, typically during retirement, is usually considered good tax planning.

WILL ENROLLMENT IN THE OCFA ROTH 457(b) AFFECT MY CURRENT CONTRIBUTIONS TO MY ROTH IRA ACCOUNT?

The participant may continue to contribute to a Roth IRA while contributing to OCFA's Roth 457(b), according to each plan's respective limits and requirements. Since the Roth IRA has an income limitation that begins phasing out at a certain income level, the participant should contact a tax professional concerning what they may contribute to a Roth IRA account.

WHO IS THE BENEFICIARY OF MY ROTH ACCOUNT?

The beneficiary designation on file also applies to the Roth subaccount. Separate designations are not allowed under the Plan. Distributions to beneficiaries retain the same income tax treatment as if the participant had received the distribution. The five-year holding requirement applies for a distribution to be considered qualified, even in the case of death.

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