Roth contributions

City of Seattle Voluntary Deferred
Compensation Plan and Trust

The City of Seattle Voluntary Deferred Compensation Plan and Trust allows you to make after-tax Roth contributions that can provide you the opportunity to withdraw your money at retirement federal income tax free.

What are Roth contributions?

Roth contributions combine the savings and investment features of a traditional deferred compensation plan with the tax-free distribution features of the Roth IRA. Instead of having all of your contributions deducted from your paycheck before taxes, you can designate some or all of those contributions to be deducted as after-tax Roth contributions. And if you satisfy certain plan and tax law requirements, the Roth money you withdraw at retirement—including earnings—won't be taxable.

The benefits of making Roth contributions:

- Roth contributions made today may provide tax-free income at retirement
- Roth contributions and Roth IRAs provide similar tax benefits; however, contribution limits for Roth contributions in your Deferred Compensation Plan can be higher depending on how much you defer before-tax
- The combined maximum annual total of your before-tax and after-tax Roth contributions to the Plan is $23,000 in 2024; this maximum total amount increases to $30,500 if you are age 50 or older, and possibly up to $46,000 if you are eligible to make special 457 catch-up contributions
- These limits are subject to change by the IRS
- Your after-tax Roth contributions are invested in the Plan, as are your before-tax contributions; Roth money is tracked separately from your before-tax money and will appear as a separate item in the Online Retirement Center and on your Plan statements
- Even if you choose to make Roth contributions, you may still be eligible to contribute to a Roth IRA, as long as you can satisfy the Roth IRA contribution rules

Before-tax, after-tax Roth or both — it's up to you

Income taxes on before-tax contribution amounts are deferred until your account is distributed (for example, at retirement). Roth contributions, on the other hand, are made on an after-tax basis — so the amount contributed is included in your W-2, just like regular income. However, earnings on Roth contributions may be distributed tax-free in retirement if you meet certain requirements.

(See "Tax-free withdrawals of your qualified Roth money" on Page 5.)

Roth contributions might be right for you if you:

- Think your tax rate will be higher when you retire than it is today
- Want to enjoy tax-free income in retirement
- Are comfortable having less in your pocket now for the potential of having more in retirement

Before-tax contributions might be right for you, if you:

- Think your tax rate will be lower when you retire than it is today
- Are willing to pay taxes when you begin taking withdrawals

Additional considerations

- **Roth contributions might not be a good option for you if you need as much money in your paycheck as possible** today to take care of today's needs; because Roth contributions are made after tax, taxes have already been taken out of your pay, and your net paycheck will be less than if you made the same contribution as a traditional before-tax 457 contribution
- **To model your own contribution scenarios, use the Roth Analyzer;** find the Analyzer in the Learning Center/Tools and Calculators at cityofseattledeferredcomp.com

Of course, the approach you should take depends on your individual situation and overall retirement planning strategy. You are encouraged to consult with your own tax, financial and/or legal professionals for advice regarding your own particular situation.

Who can benefit from making Roth contributions?

Here are some questions to ask yourself when considering whether to make Roth contributions.

		YES	NO
1	Do you anticipate your federal tax rate will be higher in retirement than it currently is?	○	○
2	Can you afford to take a reduction in after-tax, take-home pay now in order to contribute the same amount to your Plan account?	○	○
3	Do you want to minimize taxable income during retirement rather than now?	○	○
4	Are you willing to forgo current tax breaks for tax benefits after retirement?	○	○
5	Do you have tax deductions now that lower your tax rate that you will not have in retirement?	○	○
6	Do you want to diversify your retirement tax strategy?	○	○
7	Do you already have sizable retirement income that will be subject to taxes?	○	○

If you answered **"Yes" to some of these questions,** you may want to consider making Roth contributions.

Tax-free withdrawals of your qualified Roth money

You must meet a few basic requirements to receive a “qualified” distribution of Roth funds. Once your Roth distribution is qualified, you can take both your initial Roth contributions and earnings on them from your Deferred Compensation Plan account — free from federal income tax.

Generally, for your distribution to become qualified:

You have to wait at least five calendar years after making your first Roth contribution before taking a withdrawal

AND

The withdrawals must begin after you have:

- Reached age 59½ or older; **or**
- Died and your beneficiary becomes the recipient; **or**
- Become disabled

If your withdrawal does not meet these qualifications, your accumulated Roth earnings, but not your Roth contributions, will be taxed.

The City and Nationwide and its representatives do not give legal or tax advice. An attorney or tax advisor should be consulted for answers to specific questions.

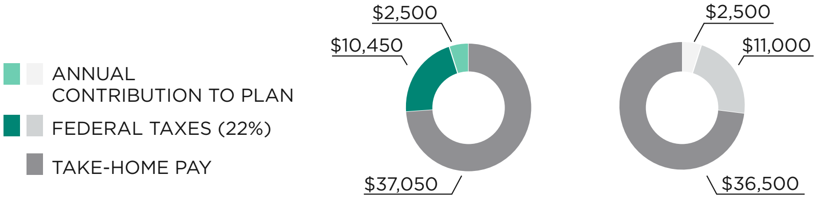
Examples of the impact of before-tax and Roth contributions

When considering whether to make before-tax contributions or Roth contributions, you should consider both your current financial situation as well as your personal financial outlook for retirement. Through the Plan, you choose a deferral amount to contribute up to applicable IRS limits.

Impact on take-home pay

A $2,500 annual Roth contribution to the Plan will result in the same amount being invested as a $2,500 annual before-tax contribution. What does change, however, is how much comes out of your paycheck to end up with the same dollar contribution. That's because the amount of income considered to be taxable is higher if you choose to make Roth contributions and you will pay more in current taxes. The chart below shows how your annual take-home pay would be affected based on the type of contribution you choose to make, assuming a $50,000 salary, a deferral rate of $2,500 annually and a 22% tax rate.

	Before-tax contributions	**Roth** contributions
Annual salary	$50,000	$50,000
Annual before-tax contribution to plan $2,500	-$2,500	-$0
Taxable income	*$47,500*	*$50,000*
Federal taxes (22%)	$10,450	$11,000
Annual Roth contribution to plan $2,500	-$0	-$2,500
Take-home pay	**$37,050**	**$36,500**



Before-tax contributions would result in an annual savings of $550 in current taxes yielding a larger paycheck (take-home pay). If invested in an after-tax account, these tax savings could grow to $21,678 over 20 years.

Note: These figures assume a 7% rate of return, biweekly contributions and a 15% tax on investment gains. The compounding concept is hypothetical and for illustrative purposes only; it is not intended to represent the expected performance of any specific investment or set of investments, which may fluctuate. Withdrawals, except from qualified Roth contributions, are generally taxable at ordinary rates. It is possible to lose money by investing in securities.

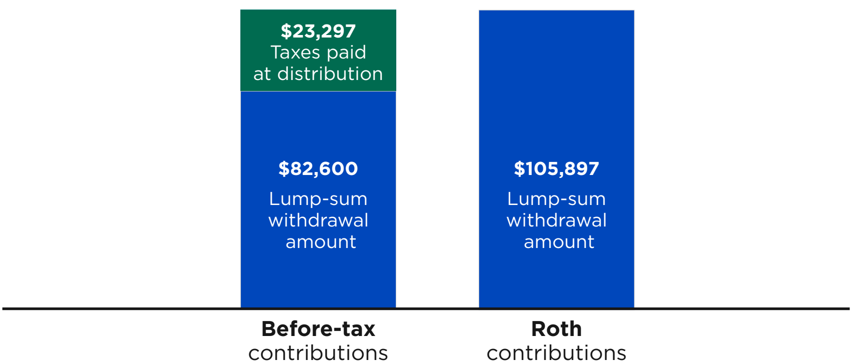
Impact on withdrawals (distributions)

Roth contributions and earnings can be taken tax free if the withdrawal is qualified, as described earlier.

The chart below shows how your withdrawals could be affected at retirement, assuming you contributed the same amounts from your pay under both scenarios. (This chart assumes an annual $2,500 contribution for 20 years, 7% in interest earnings per year and requirements are met for a Roth distribution.)

	Before-tax contributions	**Roth** contributions
Annual balance at retirement	$105,897	$105,897
Taxes paid at distribution (22%)	$23,297	-$0
Lump-sum withdrawal amount	**$82,600**	**$105,897**

The compounding concept is hypothetical and for illustrative purposes only; it is not intended to represent expected performance of any specific investment or set of investments, which may fluctuate. Withdrawals, except from qualified Roth money, are generally taxable at ordinary rates. It is possible to lose money by investing in securities.



In this hypothetical scenario, both types of contributions would result in the same account balance at retirement under the assumptions used; the balance related to before-tax contributions is subject to $23,297 in income taxes upon withdrawal. This means there would be $23,297 more available from the Roth contributions at distribution. The Roth after-tax advantage works even if you subtract the $21,678 you could have earned if you invested your annual tax savings from the traditional before-tax contributions; the net effect of contributing $2,500 in after-tax Roth contributions annually while working would still be $1,619 more.

Note: These figures assume 7% interest over 40 years. The compounding concept is hypothetical and for illustrative purposes only and is not intended to represent performance of any specific investment, which may fluctuate. Withdrawals are generally taxable at ordinary rates. It is possible to lose money by investing in securities. Withdrawals, except for qualified withdrawals from a Roth 457(b), are generally taxed at ordinary income tax rates.

Note: Before-tax (traditional) contributions would result in an annual savings of $1,000 in current taxes, yielding a larger paycheck (take-home pay). If those tax savings were invested for 40 years at an assumed rate of 7%, this returns a total of $132,053 after taxes, bringing the total for investing before tax to $686,311.

JOHN, 55

He likes the idea of tax-free retirement income, but he also likes his current tax deduction. He has no idea where his taxes may be headed in the future.

- Is approaching retirement age
- Wants the flexibility to adjust his tax strategy year to year, pursuing maximum value as he withdraws his retirement income
- Wants to maintain current take-home pay while improving his options for future distributions

	Traditional before-tax	**Roth after-tax**
Annual salary	$60,000	$60,000
Annual before-tax contribution	-$6,000	-$0
Taxable income	*$54,000*	*$60,000*
Less 22% tax (current rate)	$11,880	$13,200
Annual Roth contribution	$0	-$4,680
Take-home pay	**$42,120**	**$42,120**
Account value at retirement	$85,656	$66,812
Less 22% tax (assumed tax rate at retirement)	$18,844	$0
After-tax value	**$66,812**	**$66,812**

Note: These figures assume 7% interest over 10 years and biweekly contributions. The compounding concept is hypothetical and for illustrative purposes only; it is not intended to represent performance of any specific investment, which may fluctuate. Withdrawals are generally taxable at ordinary rates. It is possible to lose money by investing in securities. Withdrawals, except for qualified withdrawals from a Roth 457(b), are generally taxed at ordinary income tax rates.

ANGIE, 45

Angie is in her “peak” earning years. She understands she won’t be making this money forever, but wants to enjoy it while she can. She:

- Doesn’t think she can afford to lose another tax deduction
- Wants to maintain her current take-home pay
- Expects to be in a lower tax bracket (12%) at retirement

	Traditional before-tax	**Roth after-tax**
Annual salary	$80,000	$80,000
Annual before-tax contribution	-$9,600	-$0
Taxable income	*$70,400*	*$80,000*
Less 22% tax (current rate)	$15,488	$17,600
Annual Roth contribution	-$0	-$7,488
Take home pay	**$54,912**	**$54,912**
Account value at retirement	$406,646	$317,184
Less 12% tax (assumed tax rate at retirement)	$48,797	-$0
After-tax value	**$357,849**	**$317,184**

Note: Assumes 7% interest over 20 years and biweekly contributions. The compounding concept is hypothetical and for illustrative purposes only; it is not intended to represent performance of any specific investment, which may fluctuate. Withdrawals are generally taxable at ordinary rates. It is possible to lose money by investing in securities. Withdrawals, except for qualified withdrawals from a Roth 457(b), are generally taxed at ordinary income tax rates.

Whichever choice you make, you'll enjoy these benefits

- **Investment flexibility**
  Select from a multitude of investment options
- **Convenience**
  Automatic payroll deductions make it easy to save
- **Compound interest**
  Works to your advantage when investing for the long term
- **Higher contribution limits**
  You can annually contribute more through the City of Seattle Voluntary Deferred Compensation Plan and Trust than you can through your own individual retirement account (IRA)

It’s your future — start saving for it now

If you aren’t contributing to the City of Seattle Voluntary Deferred Compensation Plan, you may be missing an opportunity to save for a more secure retirement. The sooner you start saving, the more you may have when you retire.

Enrolling is easy

Enroll online at cityofseattledeferredcomp.com
Find the login box in the upper right corner of the landing page and select **Login Help & Sign Up**

Meet with our on-site Deferred Compensation Counselor
in Seattle Municipal Tower, Floor 16, Room 1635

For an appointment, call 1-855-550-1757 or visit cityofseattledeferredcomp.com and select **Schedule appointment.**

Forms may be found in the Support & Forms section of cityofseattledeferredcomp.com.

Common questions

What happens if I leave my job?

If you separate from service for any reason, you can leave your before-tax and/or Roth money in the Plan or take your money with you. You may roll over your before-tax and/or Roth money to another employer's qualified retirement plan if the new plan permits those rollovers. Or you can roll over your Roth money to a Roth IRA.

Can I contribute both before-tax and Roth contributions within the Plan?

Yes. You can choose before-tax contributions, Roth contributions or a combination of both. The annual IRS limit applies to the combined before-tax and Roth amount of your deferrals and any City contributions. Your combined before-tax and Roth 457 contributions cannot exceed the elective deferral limit set by the IRS on an annual basis.

Can any or all of my catch-up contributions be Roth contributions?

Yes. You can choose to make your catch-up contributions as either before-tax contributions, Roth contributions or a combination of both.

Can I change new deferrals from before-tax to Roth contributions?

Yes. The Plan allows you to change the rate of your contribution at any time up to IRS limits. Just as you select a specific dollar amount for your before-tax contributions, you must also select a deferral amount for Roth contributions. To make changes to your contribution amount(s), simply log in to your account at cityofseattledeferredcomp.com or call the toll-free number at 1-855-550-1757.

Note: Participants utilizing the special 457 catch-up provision must contact deferredcompquestions@seattle.gov to make any changes to their contributions.

Does the Plan allow conversion of before-tax dollars that are already in the Plan to Roth (after-tax)?

Yes. In-Plan Roth Conversions are now permitted. It allows you to convert all or a portion of your existing pre-tax accounts to a "Roth" within the Plan. If you would like to learn more about Roth, please reach out to one of the Plan's education consultants.

If you complete an In-Plan Roth Conversion, the pre-tax amount you convert is subject to ordinary income taxes for the year of the conversion. You are responsible for the tax liability and estimated tax payments associated with your In-Plan Roth Conversion. You may want to seek advice from a tax professional or financial professional about Roth contributions and In-Plan Roth Conversions before requesting a conversion.

Will the Plan allow me to roll over other Roth contributions?

Yes. The Plan will accept Roth rollover contributions from other eligible retirement plans.

Keep in mind that qualified retirement plans, deferred compensation plans and individual retirement accounts are all different, including fees and when you can access funds. Assets rolled over from outside account(s) may be subject to surrender charges, other fees and/or a 10% tax penalty if withdrawn before age 59½. Nationwide education consultants do not give legal or tax advice. Please contact your legal or tax professional for such advice.

Are the investment options the same if I invest my money in the before-tax option or in the Roth (after-tax) option?

Your Plan **contains the same investment options** whether you choose to invest on a before-tax basis or in the Roth (after-tax) option.

How will my Roth distributions become "qualified?"

For Roth distributions to become qualified, and therefore not subject to federal taxes upon withdrawal, **your first Roth contribution must have been made at least five (5) calendar years before the withdrawal and you must be age 59½ or older, disabled or deceased.** Once the Roth withdrawal is qualified, any earnings on Roth contributions are not taxed.

What if I take a distribution from my Roth contributions before it is qualified?

In any distribution from the Roth portion of your account, you receive a proportionate amount of both your principal contributions and any earnings. If you take a Roth distribution before it is qualified, the portion of your distribution that represents earnings will be included in your gross income for the year and subject to ordinary income tax. However, the amount that represents your contributions is not included in your gross income and is not taxable, because you have already paid taxes on your contributions.

May I make withdrawals from my Roth source of money in the same manner in which I'm able to make withdrawals from my before-tax source of money?

Yes. For example, the Plan will allow withdrawals on account of unforeseeable emergencies from Roth contributions subject to the same conditions that apply to before-tax contributions. Additionally, the Plan allows for participant loans from your Roth money.

• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution
• Not insured by any government agency • May lose value

Amounts withdrawn from before-tax contributions, as well as Roth distributions that are not qualified, are subject to ordinary income taxes. Withdrawals before age 59½ may also be subject to plan restrictions. See plan information regarding limitations on withdrawals from your account.

You should consider all factors before making a decision to move any retirement assets. Moving retirement assets from one plan to another may have unintended surrender fees or tax consequences.

Nationwide and its representatives do not give legal or tax advice. An attorney or tax advisor should be consulted for answers to specific questions.

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NRM-15180WA-SW.7 (12/23)