savingsplus
CALIFORNIA STATE EMPLOYEE 401(k) & 457(b) PLANS

Roth Conversion

of your

Savings Plus assets

Can I convert my Savings Plus pre-tax assets to a Roth?

You may convert all or any portion of your pre-tax assets to Roth (after-tax) assets without having to take an actual distribution from the Plan. This is known as an In-Plan Roth Conversion.

The amount of the In-Plan Roth Conversion is subject to ordinary income taxes in the year of the conversion. It is important that you fully understand the impact this will have on your income taxes, including estimated tax payments. Under federal law, once an In-Plan Roth Conversion is processed, it cannot be reversed. Savings Plus will issue a Form 1099-R by January 31 of the year following the conversion to reflect this taxable event.

Who is eligible for an In-Plan Roth Conversion?

Participants, spousal beneficiaries and spousal alternate payees are eligible.

What is and is not eligible for an In-Plan Roth Conversion?

Pre-tax account assets, not including outstanding loans and balances in the PCRA through Schwab, are eligible for an In-Plan Roth Conversion. Required minimum distributions, hardship withdrawals, unforeseeable emergency withdrawals, distributions over 10+ years or corrective distributions are not eligible.

How is an In-Plan Roth Conversion shown in my account?

The amount designated as an In-Plan Roth Conversion is held in a separate subaccount within your Plan account, as required by law. Although separately accounted for, it will be included in your quarterly statement as an In-Plan Roth Rollover (IRR) and in all the summaries and totals.

Are there any additional fees for an In-Plan Roth Conversion?

There are no additional fees for the transaction or administration of an In-Plan Roth Conversion.

How much can I convert?

You may request to convert all or a portion of your pre-tax account(s) to a Roth.

What is a qualified distribution?

A qualified (or tax-free) distribution must meet 2 requirements:

1. It is 5 years or more after January 1 of the calendar year in which the first Roth contribution or In-Plan Roth Conversion was made; and
2. You've attained age 59½, become disabled or have died

Rollovers from other plans that offer a Roth feature may count toward the 5-year requirement in your Roth account. The period starts at the beginning of the year the first contribution, Roth rollover or In-Plan Roth Conversion was made and is met on the 5th anniversary of that date.

If a distribution is not qualified, how is it taxed?

The portion of a distribution attributed to an In-Plan Roth Conversion is not subject to income tax because it was already taxed when it was converted. However, the earnings portion of the distribution will be taxed as ordinary income if the distribution is not a qualified distribution. In addition, a recapture tax may apply to 401(k) distributions.

What is a recapture tax?

A recapture tax applies to funds used for an In-Plan Roth Conversion that are not a 457(b) plan or a pre-tax IRA. A 10% recapture tax may apply to distributions that are made from the In-Plan Roth Rollover account before age 59½ unless it's made 5 years or more after January 1 of the calendar year of the In-Plan Roth Conversion. This tax may apply even if the distribution would be a qualified distribution.

The recapture tax wouldn't apply if the distribution is made after a separation from service after age 55, on account of death or disability, or for public safety employees who retire at age 50 or older. If more than one conversion is done in different tax years, each conversion will have its own 5-year requirement. Refer to **savingsplusnow.com** for exceptions.

Who is the beneficiary of my In-Plan Roth Rollover account?

Your beneficiary designation on file also applies to the In-Plan Roth Rollover account(s). Separate designations are not allowed under the Plan. Distributions to beneficiaries retain the same income tax treatment as if you had received the distribution. The 5-year holding requirement applies for a distribution to be considered qualified even in the case of death. However, the 10% recapture tax will not apply because death is an exception to this requirement.

Can I roll over my In-Plan Roth Rollover account into another plan?

If a distribution qualifies as an eligible rollover distribution, you may be able to roll Roth and In-Plan Roth Rollover accounts to another employer plan that offers a Roth program, or into a Roth IRA.

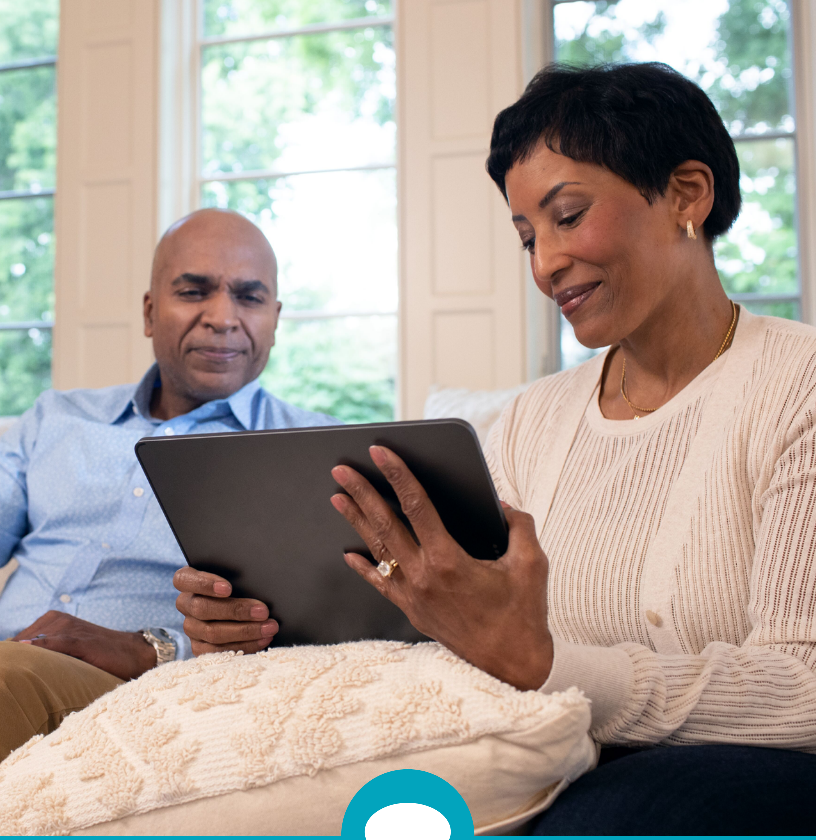
Comparison of pre-tax vs. In-Plan Roth Conversion accounts

The primary advantage of the In-Plan Roth Conversion is the potential for tax-free distributions. Even in retirement, income taxes can be significant because pensions, Social Security and other types of income are likely to be subject to federal income taxation. In some cases, it may make sense to pay taxes on a lump sum in a single year or over multiple years to avoid taxes on a series of future distributions.

The primary disadvantage of a Roth conversion is that it's subject to taxation on the amount converted in the year of conversion.

Savings Plus

allows Roth contributions, Roth rollovers and In-Plan Roth Conversions. This brochure provides general information about Roth conversions and should not be considered tax advice. It is important to consult with your tax advisors prior to requesting an In-Plan Roth Conversion.



How to reach us

Savings Plus Walk-In Center
1810 16th Street, Room 108
Sacramento, CA 95811
8 a.m. to 5 p.m. PT weekdays

Savings Plus Solutions Center
(855) 616-4776
5 a.m. to 8 p.m. PT weekdays

Savingsplusnow.com

savingsplus
CALIFORNIA STATE EMPLOYEE 401(k) & 457(b) PLANS

NRM-8274CA-CA.3 (12/22)