New York State
Deferred Compensation Plan

A 457(b) Plan for Your Future

The New York State Deferred Compensation Plan allows Roth contributions

The New York State Deferred Compensation Plan allows eligible participants to make designated Roth contributions, which are after-tax contributions with tax-free qualified withdrawals. This brochure provides general education about Roth accounts and should not be considered as tax or legal advice. Some local employers that participate in the Plan might not offer a Roth investing option.

NYSDCP

Deciding what is best for you

Deciding whether you should designate any of your deferrals as Roth contributions can be complicated because many factors are involved. One of the primary factors in making this decision could be the difference in your income tax rate today versus what it will be after retirement. In most cases, your tax bracket is lower after you retire than when you are working. If your tax rate will be lower in retirement, pretax deferrals may be advantageous because you would be deferring taxes at today's higher rate and paying them later at a lower rate. However, tax rates can and do change. Your personal financial situation may also change, resulting in higher income and tax rates at retirement.

Other important factors to consider are the anticipated rates of return for your accounts and the expected number of years of compounding until you will begin taking distributions. The higher the rate of return and the longer you have until retirement, the more attractive a Roth contribution could be. You could be paying a relatively small tax cost today to forgo paying taxes on a larger balance in the future. Conversely, if you are close to retirement and expect to be in a lower tax bracket at retirement, Roth contributions might be less attractive. Consult with your tax advisor to determine the effect that making Roth contributions could have on your tax situation.

For more information, please contact the HELPLINE at 1-800-422-8463 or your local Account Executive.

What are Roth contributions?

Roth contributions are deducted from your pay on an after-tax basis, unlike pretax deferral contributions that reduce your gross taxable income. Roth contributions grow tax deferred, and when a distribution is qualified, it is not subject to federal or New York State income taxes. The availability of tax-free distributions is what makes the Roth feature attractive.

What is a qualified distribution?

Roth contributions and pretax deferrals are subject to the same Plan distribution rules, requiring separation of service or attainment of age 59½, etc. If a distribution is available, it must meet 2 requirements to be considered qualified. The first is that the distribution must be made after age 59½, death or disability; the second is that the first Roth contribution (or in-plan Roth rollover) must have been made to the Plan at least 5 tax years before distribution. Rollovers from other plans that offer a Roth feature may count toward the 5-year requirement in certain circumstances. The period starts at the beginning of the year the first Roth contribution or rollover is made and is met on the 5th anniversary of that date. For example, let's say the participant made his or her first Roth contribution on July 25, 2021. That tax year started on January 1, 2021. The 5-year requirement would be met on January 1, 2026.

If the distribution is not qualified, the portion attributed to the Roth contributions is not subject to income tax, because it was already taxed when it was made. The growth portion of a distribution would be taxable, however. 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 the summaries and totals. There are no additional Plan fees related to the creation of the Roth subaccount. At this time, transfers from a Roth account to the self-directed investment account through Charles Schwab are not allowed.

How much can I contribute?

Roth contributions, combined with pretax deferrals, can be made up to Plan limits, which are annual dollar amounts set by the IRS. Participants choose how to allocate their deferrals in whole percentages between pretax and Roth contributions. For example, a participant could split a 15% total deferral by putting 9% in pretax and designating 6% as Roth contributions. Participants may change how they split their contributions at any time, but once a contribution is made, it cannot be reclassified.

Scan or click on the code to learn about IRS contribution limits and how small annual increases can help you reach your goals.

How are my Roth contributions invested?

Investment directions on file apply to both pretax 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 (RMDs) do not apply to Roth money sources during the original account holder's lifetime. RMDs do apply to pretax money sources. Participants may choose to take distributions from either or both sources. Participants may also choose the sources of funds for partial lump-sum and periodic distributions, as well as unforeseeable emergency withdrawals.

Retirement service credit and public safety officer insurance payments may be withdrawn only from pretax balances.

Can I roll over my Roth account?

If you are eligible to take a regular distribution, you may be able to roll Roth funds into another employer plan that offers a Roth program or a Roth IRA. In most cases, you would be eligible to take a distribution after separation of service, at age 59½, as a small inactive account withdrawal or as a distribution under the HEART Act. Distributions for unforeseeable emergency withdrawals, required minimum distributions and periodic payments of 10 years or more would not qualify for rollover. Participants should be aware of the tax rules regarding these rollovers.

Rollovers can also be made to Roth IRA accounts. The required 5-year holding period to be qualified starts in the tax year the rollover is made, regardless of the number of years of participation under the distributing plan. However, if the taxpayer had previously established any Roth IRA accounts, including the account receiving the rollover, the year the Roth IRA was established would be used as the first tax year for determination of qualified distributions.

How do Roth contributions and pretax deferrals compare?

The primary advantage of Roth contributions is the potential for tax-free distributions. Even in retirement, income taxes can be significant because pensions, Social Security benefits 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 contributions is that they 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 reduction is an important part of making contributions affordable. Although pretax deferrals will result in taxable distributions in the future, planning could limit the impact of those taxes, and distributions are not required until the participant attains age 73, 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.

How do Roth contributions and Roth IRAs compare?

You can contribute much more to the NYS Deferred Compensation Plan than to a Roth IRA, and your eligibility to contribute is not limited by your income or your tax-filing status, as it may be with a Roth IRA. Distributions from the Plan are not subject to the 10% early distribution penalty tax, whereas early distributions from Roth IRAs may be subject to the penalty tax. The Plan also provides low-cost investment options and low administrative fees compared with many IRA products. Finally, contributing to the Plan is convenient and easy through payroll deduction.

Roth IRAs do not restrict when you can take distributions, whereas Roth balances in the Plan are subject to the Plan's distribution rules. Nonqualified distributions from Roth IRAs are received on a tax-free basis first. Nonqualified distributions from the Plan are taxed on a less favorable pro rata (or proportional) basis. Roth balances in the Plan are subject to lifetime required minimum distribution rules, whereas Roth IRA balances are not. Roth IRA investment options can be very broad and are not limited to the Plan's investment options — but are usually available only through retail pricing.

Who is the beneficiary of my Roth account?

The beneficiary designation you have 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 5-year holding requirement applies for a distribution to be considered qualified, even in the case of death.

Plan representatives cannot offer tax or legal advice. Consult with your own counsel before making any decisions about contributing or converting your Plan assets to a Roth 457.

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