The WDC Roth: *Is It Right for You?*

The Wisconsin Deferred Compensation (WDC) Program now accepts Roth 457 contributions, giving you the flexibility to designate all or a portion of your WDC elective deferrals as after-tax contributions.

WDC Roth after-tax contributions and traditional before-tax WDC deferrals each have advantages. You should thoroughly review the following information and consider consulting a financial advisor prior to electing your contribution percentages.

How are WDC Roth contributions different from traditional WDC contributions?

WDC Roth contributions are made with after-tax dollars. Traditional WDC contributions are made on a before-tax basis and you pay taxes only when you take a distribution.

Do I pay taxes when I take a distribution from my WDC Roth account?

If you withdraw your WDC Roth contributions and earnings once you have held the account for at least five years and severed employment, the distribution is income-tax and penalty-free.

If a distribution is made from your WDC Roth account, and you have not reached the five-year period beginning with your first Roth contribution, you will pay income taxes on any earnings that are distributed. Otherwise, there is no income or penalty tax due on the WDC Roth contributions distributed from the WDC since they are made with after-tax dollars.

Do I pay taxes when I take a distribution from my traditional WDC account?

Withdrawals of contributions and earnings from your traditional WDC are subject to income taxes.

How do WDC Roth after-tax contributions affect my take-home pay?

WDC Roth contributions reduce your take-home pay because you pay taxes on your WDC Roth contribution up front, rather than deferring those taxes until you take a distribution.

For example, let's assume you earn $40,000 annually and pay income tax at the assessment rate of 15%. If you contribute $5,000 before tax to a traditional 457 plan, like the WDC, you don't pay income tax on the $5,000 contribution. Your take-home pay is $29,750, which is greater than it would be if you had made an after-tax contribution. If you make a $5,000 Roth 457 contribution, like the WDC Roth, you pay income taxes on that $5,000 immediately. Assuming a 15% tax rate, your take-home pay is only $29,000. That amounts to $750 less in take-home pay when you contribute to the Roth 457 account.

	Before-Tax WDC	Roth WDC (after-tax)
Annual Salary	$40,000	$40,000
Minus Before-Tax Contributions	$5,000	$0
Taxable Pay	$35,000	$40,000
Minus Estimated Income Tax	$5,250	$6,000
Minus After-Tax Contributions	$0	$5,000
TAKE-HOME PAY	$29,750	$29,000

FOR ILLUSTRATIVE PURPOSES ONLY. This illustration does not take into account Medicare, Social Security, state or local income taxes.

How much can I contribute?

The maximum combined contribution limit in 2012 is $17,000. If you are age 50 or older, you can make additional contributions of $5,500 automatically. If you qualify for the Catch-up Provision, you may be able to contribute up to $34,000 in 2012. Qualifications include being within 3 years of your normal retirement age, or the age you can retire without a reduction in your Wisconsin Retirement System (WRS) benefit, and having under-utilized deferrals, or amounts you could have contributed over the years but didn't.

How does the WDC Roth differ from a Roth IRA?

Contribution Limits

Roth IRA contributions are limited to $5,000 in 2012 (or $6,000 if you are age 50 or older) versus $17,000 for the WDC Roth (or $22,500 if you are age 50 or older). So, you can contribute more on an after-tax basis to your WDC Roth than to a Roth IRA.

Eligibility

If you're single and earn more than $125,000 a year or are married with a joint income of more than $183,000 in 2012, you aren't eligible to contribute to a Roth IRA in 2012. However, you can participate in the WDC Roth option regardless of your income.

At-a-Glance Comparison

	Before-Tax WDC	WDC Roth
Is my contribution taxable in the year I make it?	No	Yes
Is my contribution taxed when distributed?	Yes[1]	No
Are the earnings on my contributions taxed when distributed?	Yes[1]	No, provided the distribution occurs after age 59½, death or disability AND no earlier than five years after your first Roth 457 contribution.
When do I have access to the funds?	Upon separation of service with your employer or at age 70½.	Upon separation of service with your employer or at age 70½. WDC Roth money may be withdrawn tax-free after five years of after-tax contributions have been made and you attain the age of 59½ and separate from service with your employer, have a disability or die. Otherwise, earnings on Roth contributions may be taxed as ordinary income when you take a distribution.
What is the maximum amount I can contribute?	Limit for contributions in 2012: $17,000; if using the Age 50+ Catch-Up: $22,500; or up to $34,000 in the three calendar years of Special 457 Catch-Up, if eligible.[2]	
If I'm still working for my employer and experience a hardship, may I make a withdrawal?	Yes, if your situation meets the IRS and WDC hardship requirements.	
Do I have to take a minimum distribution at age 70½?	Yes	Yes
Can I roll over an existing Roth IRA into my WDC account?	No	No, Roth IRAs cannot be rolled into the WDC because Roth IRAs do not allow for rollovers to anything other than another Roth IRA.
If I change jobs, can I roll over my account?	Yes, to a qualified plan, traditional or Roth IRA, 403(b) plan or governmental 457(b) plan if the plan allows it.	Yes, to a Roth IRA or a governmental 457(b) plan, 401(k) plan or 403(b) plan if the plan has a designated Roth account and accepts rollovers.
Can I roll over a former employer's account or IRA into the WDC?	Yes, you are able to roll over a former employer's 401(k), 403(b) or 401(a) plan, a traditional IRA, or another governmental 457 plan into the WDC.	

1 Withdrawals are subject to ordinary income tax. For funds rolled over to a governmental 457(b) plan, a 10% early withdrawal penalty may apply to withdrawals made prior to age 59½.
2 Age 50+ catch-up and special 457 catch-up may not be used in the same calendar year.

Can I roll over my account if I change employers?

Should you leave your current employer, you still have the option of rolling over your WDC Roth account to a Roth IRA or to a 457, 401(k) or 403(b) plan that has a designated Roth account and accepts Roth rollovers. You can roll over your traditional WDC account to any eligible IRA, governmental 457 plan, 403(b) plan or qualified 401(k) plan that accepts rollovers.

Can I roll over an existing Roth IRA to the WDC?

Unfortunately, Roth IRAs can only be rolled into other Roth IRAs. Therefore, a Roth IRA cannot be rolled to the WDC.

Can I leave my money in my WDC Roth indefinitely?

Once you reach age 70½, the government requires that you begin taking minimum distributions.

Making the Best Choice for You

You will have to determine whether contributing to the WDC on an after-tax Roth basis or a traditional before-tax basis makes more sense for your situation. The WDC Roth essentially "locks in" today's tax rates on all contributions. For some people—especially those who expect to be in a higher tax bracket when they retire—the WDC Roth may make the most sense. If you're one of those people, the WDC Roth allows you to pay taxes on your contributions when they are contributed (presumably at a lower tax rate than you would expect to pay during retirement).

If you expect to be in a lower tax bracket when you retire, you might want to consider contributing to the WDC on a before-tax basis. You won't pay taxes on your contributions or any earnings on your contributions until you take a distribution, which is usually during retirement (when many people expect their retirement earning power and tax burden to be lower than it is today).

The Bottom Line: Participate!

Regardless of which type of contributions you choose, the important thing is to contribute as much as you can today for your retirement tomorrow. If after you've done your research and consulted the experts you decide that WDC Roth contributions are right for you, you can make the appropriate changes to your account by visiting the WDC's website at **www.wdc457.org** or calling us at (877) 457-9327. If you are not currently enrolled in the WDC, you can elect to make WDC Roth contributions by completing an enrollment form.

For more information about WDC Roth, please contact the WDC at (877) 457-9327 or www.wdc457.org.[3]

3 Access to the voice response system and website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.