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# There's a new way to invest for retirement.

## Your guide to Roth 457(b) contributions

By now, you may have heard of the Roth IRA. You may have even set one up. Well, you also have the opportunity to designate all or part of your contributions to your governmental deferred compensation plan as after-tax Roth 457(b) contributions.

When you contribute to a Roth 457(b), your contributions are made with after-tax dollars, but withdrawals of contributions and earnings can be tax free during retirement, if certain conditions are met.<sup>1</sup>

If you wish, you can even split your contributions between traditional, pretax 457(b) contributions and Roth 457(b) contributions.

**Q: What's the benefit of designating some or all of your contributions as Roth?**

**A: It may give you the opportunity to pay taxes on your contributions now and avoid taxes later.**

	Pretax 457(b) contributions	After-tax Roth 457(b) contributions
Pretax income	\$60,000	\$60,000
Amount contributed	\$8,000 pretax	\$8,000
Net income after contributions and taxes	\$52,000	\$50,240 <sup>2,3</sup>
<b>Hypothetical after-tax account value in 20 years, assuming a 7% annual return<sup>4</sup></b>		
Tax rate remains the same (22%) at time of distribution	\$24,146 <sup>5</sup>	\$30,957
Tax rate decreases to 12% at time of distribution	\$27,242 <sup>6</sup>	\$30,957
Tax rate increases to 24% at time of distribution	\$23,527 <sup>7</sup>	\$30,957

This example is for illustrative purposes only. It compares a 12%, 22% and 24% tax bracket at the time of distribution and an average total rate of return of 7% compounded annually. Applicable tax rates may be significantly different from when the contribution is made compared to the time of distribution. The Roth account assumes the distribution is a qualified distribution.

<sup>1</sup> Contribution earnings are not taxable in the year they are distributed, assuming the distribution is made five years or more after January 1 of the first tax year in which a Roth contribution was made AND the distribution was made due to the participant reaching age 59½ or because of their death or disability.

<sup>2</sup> This figure assumes a 22% tax bracket.

<sup>3</sup> This represents the net amount after \$1,760 is paid in taxes for Roth after-tax contribution.

<sup>4</sup> This is based on the one-time contribution amounts above.

<sup>5</sup> This figure represents the net amount after taxes are paid (22% bracket), assuming the distribution is a qualified distribution.

<sup>6</sup> This figure represents the net amount after taxes are paid (12% bracket), assuming the distribution is a qualified distribution.

<sup>7</sup> This figure represents the net amount after taxes are paid (24% bracket), assuming the distribution is a qualified distribution.

## What's the difference?

	Traditional (pretax) 457(b)	Roth 457(b)	Roth IRA
Current contribution limit <sup>8</sup>	Combined \$19,500		\$6,000
Current catch-up contribution limit <sup>8</sup> —for those age 50 and older	Combined \$6,500		\$1,000
Contribution taxable in year contributed	No	Yes	Yes
Contribution taxable in year distributed	Yes	No	No
Contribution earnings taxable in year distributed	Yes	No <sup>1</sup>	No <sup>1</sup>
Your income could limit your contribution amount	No	No	Yes, you must have earned income; contributions may be limited based on modified gross income

<sup>8</sup> IR-2019-179 (Nov. 6, 2019).

## Is a Roth 457(b) right for you?

You may want to consider making Roth 457(b) contributions if you:

- Want to take advantage of the potential tax-free withdrawals provided by a Roth 457(b) account
- Are unable to contribute to a Roth IRA because of your income
- Are looking for an estate-planning tool to leave tax-free assets to heirs

If you decide contributing to a Roth 457(b) account makes sense for you, we're here to help. Call me today!

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