

Comparing Tax-Deferred and After-Tax Roth Retirement Savings Options

The chart below can provide you with a possible way to evaluate the choice to pay taxes today or in retirement. It assumes you contribute the same amount while working, whether as after-tax Roth (paying income taxes now with tax-free withdrawals for qualified distributions) or traditional tax-deferred (which can reduce your taxable income today but you pay taxes on distributions). The University of Michigan does not provide (nor is this intended to constitute) tax, legal, accounting, estate planning or investment advice. Your specific circumstances may not be addressed by this chart. It is the responsibility of the individual to address questions or concerns to a qualified professional.

CONSIDERATION	TAX-DEFERRED	AFTER-TAX ROTH
Contributions when deducted from your paycheck	Not subject to income tax; can reduce your current taxable income.	Subject to income tax; will not reduce your current taxable income.
Distribution of contributions	Taxable	Tax-free
Distribution of earnings	Taxable	Tax-free if qualified
Subject to income tax to beneficiaries in the event of death?	Yes	Tax-free if the deceased started making Roth contributions more than 5 tax years prior to distribution.
Estate tax	May apply	May apply
Subject to required minimum distributions at age 70½?	Yes. Minimum distributions must begin by April 1 of the calendar year following the calendar year you reach age 70½ once you have retired or terminated from U-M. If you are already over age 70½ when you retire or terminate, then you must begin minimum distribution by April 1 of the following calendar year.	Yes. Minimum distributions must begin by April 1 of the calendar year following the calendar year you reach age 70½ once you have retired or terminated from U-M. If you are already over age 70½ when you retire or terminate, then you must begin minimum distribution by April 1 of the following calendar year. However, if the Roth 403(b) or Roth 457(b) is rolled over to a Roth IRA before the calendar year in which you reach age 70½ you can delay distributions indefinitely during your lifetime.
Subject to IRS 10% penalty for distributions prior to age 59½?	403(b) SRA: Yes 457(b): No	<u>403(b) SRA:</u> After-tax contributions: no Earnings: yes, unless an exception applies <u>457(b):</u> After-tax contributions: no Earnings: no
Rollovers	To another tax-deferred 403(b), 457(b), 401(k), 401(a), Traditional IRA and Roth IRA.	To another after-tax Roth 457(b), Roth 403(b), Roth 401(k), Roth 401(a) or Roth IRA.