Invested in your future

RPB

Pre-Tax vs. Roth (Post-Tax) Contributions

Choosing which is right for you

As an RPB plan participant, you have the option to make your elective deferral contributions to your retirement account with pre-tax dollars, post-tax dollars (known as Roth contributions), or a combination of both.

YOUR OPTIONS: THE KEY TAKEAWAYS

- With **pre-tax contributions**, you postpone paying taxes on the money you contribute, but you'll pay taxes later on both your contributions and their earnings.
- With **Roth post-tax contributions**, you pay taxes now on the money you contribute, but it grows tax-free. When you make qualified withdrawals, you won't pay federal income tax on any of it.
- You can also **divide your contributions**, making some portion pre-tax and some portion Roth—and change your contribution preferences at any time.
- Your total contributions, combined with your employer's contributions to your account (if applicable), cannot exceed the **IRS annual contribution limit.**
- **Employer contributions** can only be made on a pre-tax basis.

Pre-tax vs. Roth contributions: How they work

Pre-tax 403(b) contributions are taken out of your paycheck before taxes are calculated. This reduces your current taxable income and, as a result, the amount of income taxes you pay now. After you retire and start withdrawing your money, you'll pay taxes on all of it—the contributions and the investment returns the account generated.

When you make post-tax **Roth contributions**, you pay income taxes now on your contributions to your account. But those contributions—including investment earnings—will be tax-free when you use your money in retirement, as long as they are qualified Roth withdrawals.

You can split your money between pre-tax and Roth contributions in any proportion you wish. If your circumstances change, you can change your contribution preferences by submitting a new Elective Deferral Agreement form to your employer.

Clergy should speak with a financial professional to coordinate/compare the benefits of their housing allowance tax exclusion on future pre-tax withdrawals with the tax benefits of Roth contributions.

COMPARISON OF CONTRIBUTION TYPES IN YOUR 403(b) PLAN

	Pre-tax contributions	Roth (post-tax) contributions
Annual elective contribution limit	The IRS limits your total contributions each year. The 2023 combined limit for pre-tax and/or Roth post-tax contributions is $22,500 ($30,000 if you are age 50+).	
Taxes on contributions	None. Contributions are made before taxes are calculated, which reduces your current taxable income.	Yes. Contributions are taken from your paycheck after taxes have already been calculated/taken out.
Taxes on withdrawals	**Contributions** and **investment earnings** are taxed upon withdrawal. If withdrawn before age 59.5, there is an additional 10% penalty tax.[1]	The **contribution** portion is not taxed again because it was made with post-tax dollars. You can withdraw the **investment earnings** portion without paying federal income taxes as long as: 1. You've held your account for five years[2], and 2. You're at least age 59.5 (or disabled) If withdrawn before 5 years, earnings will be taxed. If withdrawn before age 59.5, there is an additional 10% penalty tax. Depending on where you live, you may pay state income tax on Roth earnings when you withdraw the money.
Required Minimum Distributions	Yes, at age 72 (unless still working)	
Tax-free money to heirs	No	Yes, once the account is 5 years old

[1] Clergy parsonage tax exclusion may apply. If you stop working for an RPB-eligible employer during or after the year you reach age 55, there is no 10% penalty.

[2] Beginning January 1 of the year that you made your first Roth contribution. If you roll over Roth savings from another qualified plan into the RPB plan, the earlier "first contribution" year of either plan will be used to determine if the 5-year rule is met.

Which strategy may be best for you?

Pre-tax contributions may be right if:	**Roth (post-tax) contributions** may be right for you if:
• **You expect your income in retirement to be lower** than it is now, and thus your future tax bracket will be lower. • **You're on a tight budget.** Making pre-tax contributions postpones your taxes, keeping more money in your paycheck now. • **You want to reduce your income tax burden for the current year.** • **You're a natural "saver."** You'll likely put the tax savings you get from pre-tax contributions to good use for your financial future. • **You have other tax benefits available to you in retirement.** (Clergy can reduce their income tax burden in retirement with their parsonage tax exclusion.)	• **You expect your income in retirement to be the same or higher** than it is now, and thus your future tax bracket will be the same or higher. • **You're in the early stages of your career** and pay taxes at a lower rate. • **You want to leave a sum of tax-free money to your heirs.** • **You earn too much to contribute to a Roth IRA**, but you want a pool of tax-free money to withdraw in retirement. • You want to make Roth contributions **greater than the Roth IRA contribution limit.** • **You're a natural "spender."** You'll get your tax burden out of the way now rather than spending the pre-tax savings on something that won't benefit your financial future. • **Clergy:** You anticipate your parsonage tax exclusion in retirement to be lower than the income you will need to live on.

If you really don't know which is best for you, you may want to consider doing both—splitting your contributions between pre-tax and Roth contributions.

Considering your retirement income, budget, tax bracket, and more

Key factors in determining whether pre-tax or post-tax contributions will ultimately benefit you is whether your income in retirement will be higher or lower than your income now, what budget you'll need in retirement, and the estimated amount you'll be required to withdraw from your RPB account based on IRS rules.

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Answering these questions may help:

1. **What are all the sources of income you will have in retirement, other than Social Security?**
2. **Which of these will be considered taxable income?**
3. **What will your expenses be?**
4. **What deductions, if any, will you have?**
5. **What impact will your total income have on the taxation of your Social Security benefit?**
6. **What will your required minimum distributions (RMD) be?**
7. **Where will you be living in retirement? The state you live in may tax Roth earnings.**

Income sources may include your savings, your RPB account, other retirement accounts, capital gains from the sale of a house or investments, and your spouse's income, if you file taxes jointly. But not all of these are taxable.

We recommend that you speak with a Fidelity retirement planner (free to all RPB plan participants) and/or your financial and tax advisors to help you decide what's right for you.

Questions?

We're here to help.

RPB
askus@rpb.org
rpb.org
212.681.1818

Fidelity Retirement Service Center
800.343.0860
Monday through Friday (except N.Y. Stock Exchange holidays),
8:30 a.m. to midnight, Eastern time

Fidelity Retirement Planners
800.328.6608
Monday through Friday (except N.Y. Stock Exchange holidays),
9 a.m. to 9 p.m., Eastern time

For Fidelity service and planning in SPANISH:
800.587.5282

Disclaimer: This information is intended to be educational and is not specific to any individual investor. A Roth 403(b) distribution is federally tax-free and penalty-free, provided the five-year holding period has been satisfied and one of the following conditions is met: age 59½, disability, or death. State taxes may apply. Elective contributions to both pre-tax and Roth 403(b) accounts are subject to the annual IRS dollar limit under Section 402(g) of the Internal Revenue Code, plus allowable catch-up contributions.