

Ministers' Retirement Plan

Designated Roth 403(b) Accounts

Frequently Asked Questions

1. What is a designated Roth 403(b) contribution?

A designated Roth 403(b) contribution is a type of elective deferral that employees can make to their 403(b) retirement plan.

With a designated Roth 403(b) contribution, the employee irrevocably designates the deferral as an after-tax contribution that the employer must deposit into a designated Roth 403(b) account. The employer includes the amount of the designated Roth 403(b) contribution in the employee's gross income at the time the employee would have otherwise received the amount in cash if the employee had not made the election. It is subject to all applicable wage-withholding requirements.

2. Can I make both pre-tax elective and designated Roth 403(b) contributions in the same year?

Yes, you can contribute to both your designated Roth 403(b) account and to your traditional, pre-tax 403(b) account in the same year in any proportion you choose as long as the contributions are within the maximum contribution limits.

3. Is there a limit on how much I may contribute to my designated Roth 403(b) account?

Yes, the combined amount contributed to all designated Roth 403(b) accounts and traditional, pre-tax accounts in any one year for any individual is limited (under IRC Section 402(g)). The limit is \$19,000 in 2019, plus an additional \$6,000 in catch-up contributions in 2019 if you are age 50 or older at the end of the year. The contribution limits are subject to change annually.

4. Can I make age-50 catch-up contributions as a designated Roth 403(b) contribution to my designated Roth account??

Yes, provided you are age 50 or older by the end of the year and the plan permits these contributions.

5. Can I contribute the maximum, including catch-up contributions, to both a designated Roth 403(b) account and a Roth IRA in the same year?

Yes, if you are age 50 or older, you can make a contribution of up to \$25,000 to your Roth 403(b) plan (\$19,000 regular and \$6,000 catch-up contributions) and \$6,500 to a Roth IRA (\$5,500 regular and \$1,000 catch-up IRA contributions) for a total of \$31,500 for 2019. Please remember that income limits may limit your Roth IRA contributions but do not limit your designated Roth 403(b) contributions.

6. Do the same income restrictions that apply to Roth IRAs apply to designated Roth 403(b) contributions?

No, there are no limits on your income in determining if you can make designated Roth 403(b) contributions. Of course, you have to have salary from which to make any 403(b) contributions.

7. Can my employer match my designated Roth 403(b) contributions? Must my employer allocate the matching contributions to a designated Roth 403(b) account?

Yes, your employer can make matching contributions on your designated Roth contributions. However, your employer must allocate any contributions to match designated Roth 403(b) contributions into your traditional 403(b) pre-tax account.

8. Can I change my mind and have designated Roth 403(b) contributions treated as pre-tax elective contributions?

No. Once you designate contributions as Roth 403(b) contributions, you cannot later change them to traditional, pre-tax elective contributions.

9. Can I make a designated Roth 403(b) contribution for my spouse if my spouse has no earned income, as permitted with a spousal IRA account?

No. Although you can contribute to a traditional or Roth IRA for your spouse based on your earned income, you cannot contribute to your Roth 403(b) account for your spouse.

10. What is a qualified distribution from a designated Roth 403(b) account?

A qualified distribution is generally a distribution that is made after a 5-taxable-year period of participation and is either:

- a. made on or after the date you attain age 59½
- b. made after your death, or
- c. attributable to your being disabled.

If a distribution is made to your alternate payee or beneficiary, then your age, death or disability is used to determine whether the distribution is qualified. The only exception is when the alternate payee or surviving spouse rolls over the distribution to his or her own employer's designated Roth 403(b) account, in which case their own age, death or disability is used to determine whether the distribution is qualified.

11. Is a qualified distribution from a designated Roth 403(b) account included in your gross income?

A qualified distribution from a designated Roth account is **NOT** included in your gross income.

12. Is a nonqualified distribution from a designated Roth 403(b) account included in your gross income?

A distribution that is not a qualified distribution will be partially included in gross income if there are earnings in the account.

- The distribution will be treated as coming pro-rata from earnings and contributions (basis).
- The 10% tax on early withdrawals may apply to the part of the distribution that is includible in gross income.

13. What is a 5-taxable-year period of participation? How is it calculated?

The 5-taxable-year period of participation begins on the first day of your taxable year for which you first made designated Roth 403(b) contributions to the plan. It ends when five consecutive taxable years have passed. If you make a direct rollover from a designated Roth 403(b) account under another plan, the 5-taxable-year period for the recipient plan begins on the first day of the taxable year that you made designated Roth 403(b) contributions to the other plan, if earlier.

14. What happens if I take a distribution from my designated Roth 403(b) account before the end of the 5-taxable-year period?

If you take a distribution from your designated Roth 403(b) account before the end of the 5-taxable-year period, it is a nonqualified distribution. You must include the earnings portion of the nonqualified distribution in gross income. However, the basis (or contributions) portion of the nonqualified distribution is not included in gross income. The basis portion of the distribution is determined by multiplying the amount of the nonqualified distribution by the ratio of designated Roth 403(b) contributions to the total designated Roth 403(b) account balance. For example, if a nonqualified distribution of \$5,000 is made from your designated Roth 403(b) account when the account consists of \$9,400 of designated Roth 403(b) contributions and \$600 of earnings, the distribution consists of \$4,700 of designated Roth 403(b) contributions (that are not includible in your gross income) and \$300 of earnings (that are includible in your gross income).

15. Since I make designated Roth 403(b) contributions from after-tax income, can I make tax-free withdrawals from my designated Roth 403(b) account at any time?

No, the same restrictions on withdrawals that apply to the traditional pre-tax contributions also apply to designated Roth 403(b) contributions. Since our plan permits distributions from accounts because of hardship, you may choose to receive a hardship distribution from your designated Roth 403(b) account. The hardship distribution will consist of a pro-rata share of earnings and basis and the earnings portion will be included in gross income unless you have had the designated Roth 403(b) account for 5 years and are either disabled or over age 59 ½.

16. Can I take a loan from my designated Roth 403(b) account?

Yes. You can identify from which account(s) in your 403(b) plan you wish to draw your loan, including from your designated Roth 403(b) account. However, you must combine any loans you take from your designated Roth 403(b) account with any other outstanding loans from that plan and any other plan maintained by the employer to determine the maximum amount you are permitted to borrow. The repayment schedule for your loan from your designated Roth 403(b) account must separately satisfy the amortization and payment requirements.

17. Can I roll over distributions from a designated Roth 403(b) account to another employer's designated Roth 403(b) account or into a Roth IRA?

Yes. However, because a distribution from a designated Roth 403(b) account consists of both pre-tax money (earnings on the Roth contributions) and basis (Roth contributions), it must be rolled over into a designated Roth 403(b) account in another plan through a direct rollover. If the distribution is made directly to you and then rolled over within 60 days, the basis portion cannot be rolled over to another designated Roth account, but can be rolled over into a Roth IRA.

18. Who is responsible for keeping track of the designated Roth 403(b) contributions and 5-taxable-year period?

The Benefits Board is responsible for keeping track of the amount of designated Roth 403(b) contributions made for each employee and the date of the first designated Roth 403(b) contribution for calculating an employee's 5-taxable-year period.

19. Since a qualified distribution from a designated Roth 403(b) account is not subject to taxation, must the distribution be reported?

Yes, a distribution from a designated Roth 403(b) account must be reported on a Form 1099-R.

20. Since designated Roth 403(b) contributions are already included as part of wages, tips & other compensation on Form W-2, must designated Roth 403(b) contributions also be identified on Form W-2?

Yes, contributions to a designated Roth 403(b) account must be reported separately on the Form W-2 in Box 12, using the Code BB.

21. What are the benefits of contributing to a designated Roth 403(b) account versus contributing to a Roth IRA?

Compared to a Roth IRA, designated Roth 403(b) accounts:

- Roth 403(b) accounts offer larger annual contribution limits than Roth IRAs,
- Roth 403(b) accounts are not subject to the modified gross income limitations that restrict some individuals from contributing to Roth IRAs, and
- Roth 403(b) accounts allow participants to keep their Roth and pre-tax retirement savings within a single plan.

22. Do the required minimum distribution rules apply to designated Roth 403(b) accounts?

Yes. Designated Roth 403(b) accounts are subject to the required minimum distribution rules that apply to the traditional pre-tax 403(b) plan. In general, if the participant is retired, the participant must start receiving distributions from the plan at age 70½, and annual withdrawals will be required based on his or her remaining life expectancy at the time of the withdrawal. Roth IRAs, in comparison, do not require minimum distributions at age 70½.

Additional Resources

<http://www.irs.gov/Retirement-Plans/Retirement-Plans-FAQs-on-Designated-Roth-Accounts>

<http://www.irs.gov/Retirement-Plans/Designated-Roth-Accounts-Additional-Resources>

<http://www.irs.gov/Retirement-Plans/Designated-Roth-Accounts-Contributing-to-a-Designated-Roth-Account>

<http://www.irs.gov/Retirement-Plans/Designated-Roth-Accounts-Distributions>

<http://www.irs.gov/Retirement-Plans/Roth-Comparison-Chart>

If you have any additional questions, please contact us by phone at (423) 478-7131, toll-free at (877) 478-7190, by e-mail at info@benefitsboard.com, or by writing to:

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