State Employees Deferred Compensation Plan
Comparison of Select Features of the Traditional 457(b) and Roth 457 Plans
Coming January 2016

Feature	Traditional 457(b)	Roth 457(b) (starting Jan 2016)
Payroll Deductions	Yes	Yes
Contributions	Pre-tax	After-tax
2016 Contribution Limits	$18,000 ($24,000 if age 50 or over or $36,000 for special Catch-up	Same as Traditional. Contributions are combined if participating in both
Investment Growth	Accumulates tax-deferred	Accumulates tax-free*
Withdrawal Eligibility	Upon separation of State service	Same as Traditional 457
10% Early Withdrawal Penalty	457 Plan assets are not subject to early withdrawal penalty. Rollover accounts may be subject to 10% early withdrawal penalty.	Same as Traditional 457
Required Minimum Distributions (RMDs)	Subject to RMDs once separated from service and age 70 1/2, may delay first distribution until April 1 of the following year.	Same as Traditional 457
Hardship Withdrawals Available	Yes, upon meeting specific conditions, by application only	Same as Traditional 457
Loans Available	Yes. One outstanding loan at a time	No
Investment Options Available	15 investment options plus date-based Retirement Funds	Same as Traditional 457
Rollover-out Option	Upon distribution status eligibility	Same as Traditional 457
Rollover-in Option	From qualified plans and IRAs	From qualified plans only
Conversion Available	Not at this time	Cannot reconstitute pre-tax status
Permissive Service Credits	Yes	Undecided at this time

*Roth qualified distributions: A qualified distribution is tax-free if taken upon the participant reaching age 59 ½, becoming totally disabled, or upon the participant's death and at least five years have passed since participant's first Roth contribution. If your distribution is not qualified, any withdrawal from your account will be partially taxable. These rules apply to Roth distributions only from employer-sponsored retirement plans. Additional plan distribution rules apply.

FAQ's for Roth 457(b) option

1. **What is a designated Roth account?**

A designated Roth account is a feature in new or existing 401(k), 403(b) or governmental 457(b) plans. If a plan includes a designated Roth feature, employees can designate some or all of their elective deferrals as designated Roth contributions (which are included in gross income), rather than traditional, pre-tax elective contributions.

2. **Can I make both pre-tax elective and designated Roth contributions in the same year?**

Yes, you can contribute to both a designated Roth account and a traditional, pre-tax account in the same year in any proportion you choose.

3. **Is a Roth 457 more advantageous than a pre-tax plan?**

It varies according to each participant's tax situation. As a general rule, the Roth option is only advantageous if you will be in a higher tax bracket when you take distributions than when you made contributions. It is also worth noting that, in Illinois, you will pay state income taxes on any Roth contributions, whereas, under current state law, state income taxes are not paid on any distributions from Deferred Compensation.

4. **Is there a limit on how much I may contribute to my designated Roth account?**

Yes, the combined amount contributed to all designated Roth accounts and traditional, pre-tax accounts in any one year for any individual is limited (under IRC Section 402(g)). The limit is $18,000 in 2016, plus an additional $6,000 in catch-up contributions in 2016 if you are age 50 or older at the end of the year. These limits may be increased in later years to reflect cost-of-living adjustments. The special catch up provision also applies to the Roth option.

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

Yes. if you are age 50 or older, in 2016 you can make a contribution of up to $24,000 to your governmental 457(b) plan ($18,000 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 $30,500 for 2016.

Income limits do apply to Roth IRA contributions, however.

6. **What is a qualified distribution from a designated Roth account?**

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

1. made on or after the date you attain age 59½
2. made after your death, or
3. 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 account, in which case their own age, death or disability is used to determine whether the distribution is qualified.

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

7. 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 contributions to the plan. It ends when five consecutive taxable years have passed. For example, if a participant begins Roth contributions any time in 2016, any distributions taken after 1/1/2021 would be considered qualified (if the participant were over age 59 ½ at that time).

If you make a direct rollover from a designated Roth 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 contributions to the other plan.

8. What happens if I take a distribution from my designated Roth account before the end of the 5-taxable-year period?

If you take a distribution from your designated Roth 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 contributions to the total designated Roth account balance. For example, if a nonqualified distribution of $5,000 is made from your designated Roth account when the account consists of $9,400 of designated Roth contributions and $600 of earnings, the distribution consists of $4,700 of designated Roth contributions (that are not includible in your gross income) and $300 of earnings (that are includible in your gross income).

9. Can I take a loan from my State of Illinois Roth account?

No, loans are not allowed from Roth contributions, only pre-tax contributions, but Roth balances are considered when determining the available loan amount.

10. Are hardship distributions allowed from Roth contributions?

Yes, but the non-qualified portion would be subject to taxation.

11. Are minimum distributions required by the IRS with a Roth 457(b) when a participant turns 70 1/2?

Yes, the IRS requires minimum distributions from Roth 457(b)'s and they are calculated in the same manner as pre-tax accounts. RMD's may be avoided, however, by rolling Roth funds out to a Roth IRA (which does not have RMD's). Participants are able to do this and still keep their pre-tax contributions in the Plan. If an RMD is due when the participant requests a rollover out of the Plan (e.g. the participant is over age 70 ½), that year's RMD would be issued by the Plan before the remaining funds were rolled out.

12. How are distributions made from participant's accounts which hold both Roth and pre-tax contributions?

Unless the participant directs the Plan otherwise, distributions will come from pre-tax contributions (and applicable earnings) until these are exhausted at which point the remaining distributions will come from the Roth contributions (and applicable earnings). Any unqualified distributions from Roth accounts will be made pro rata from contributions and earnings (see question 8 above).

The participant may elect, however, to have contributions come from the Roth contributions or pro rata from both types of contributions.

13. How are distributions to beneficiaries handled for Roth contributions?

The rules are the same as for pre-tax contributions. Once again, if the beneficiary wishes to avoid RMD's they may consider rolling the funds out to a Roth IRA.