THE **OREGON SAVINGS GROWTH PLAN** PRESENTS

Much Ado about Roth 457

Your guide to Roth 457 contributions

"Wonderful new feature this year"
★★★★

"Exciting. Thrilling. Fantastic."
★★★★

"Best thing to hit the Pacific Northwest!"
★★★★

What's in a name? That which we call Roth

*An added choice under the Oregon Savings Growth Plan provides opportunity for tax-free retirement income.**

Oregon Savings Growth Plan (OSGP) gives you even more flexibility to save for retirement. The Plan now includes a Roth 457(b) feature. This option doesn't change how much you can contribute, but rather gives you more control over when your contributions — and retirement income — will be subject to federal income tax.

Unlike contributions to a traditional 457 plan, which are made on a pre-tax basis, contributions to a Roth 457 are made on an after-tax basis. What this means is that taxes are withheld from your Roth contributions before they're invested in your OSGP account. In exchange, you may be able to withdraw your contributions and any earnings tax-free when you retire,* which could mean more retirement income.

**Qualifying conditions apply.*

Much Ado about Roth

- Contributions are after tax and subject to tax withholding
- Withdrawals are tax-free, as long as qualifying conditions are met
- Roth may be right for people who:
  - — expect to be in a higher tax bracket in retirement
  - — are in a low tax bracket today or have other large tax deductions
  - — want tax-free withdrawals in retirement
  - — want the option of not taking required withdrawals at age 70½ (if you roll over to a Roth IRA)
  - — exceed Roth IRA income limitations

Friends, Oregonians, Participants, lend us your ears

Here are answers to commonly asked questions

What is a Roth 457? A Roth 457 allows you to contribute to OSGP on an after-tax basis. As contributions are made on an after-tax basis, the principal is not taxable at the time of distribution. In addition, any earnings on the Roth 457 money you invest will not be taxable at the time of distribution provided qualifying conditions are met.

What are the Qualifying conditions? Distributions (including earnings) are tax-free as long as you have satisfied the 5-year holding period AND are age 59½ or older (assuming you have separated from service, are disabled, or a distribution is made to your beneficiary after your death).

Explain the 5-year holding period. To qualify for a tax-free distribution of your earnings your Roth contributions must be held in your OSGP account at least 5 years prior to the date of distribution. You can withdraw your funds tax- free from your account if you satisfy the 5-year rule and other qualifying conditions.

When does the 5-year holding period start? The 5-year rule holding period begins on the first day of the taxable year in which you make your initial Roth contribution. In other words, you are recognized as having made a Roth contribution in a particular tax year regardless of whether you make it in January or December. For example, if your first contribution is May 1, 2015, the five year holding period would begin January 1, 2015.

Does the Roth 457 have any income based restrictions like the Roth IRA? No, it does not. You are restricted only to the allowable federal 457 contribution limit. In 2016, it is $18,000 with an additional $6,000 if you are age 50 or over. These amounts are aggregated with any pre-tax contributions you make.

How do I know if a Roth 457 is best for me? That is a questions you will have to answer for yourself or through a tax advisor. Roth may be right for people who expect to be in a higher tax bracket in retirement, are in a low tax bracket today, or have other large tax deductions, or who exceed Roth IRA income limitations. There are many factors to consider. For example, if you are Medicare eligible, a conversion will increase your taxable income and could cause an increase to your Medicare premiums. It is advisable to speak to a tax expert before completing a conversion.

Can I contribute to both pre-tax and Roth in OSGP?
Yes, you can. The combined limit is the $18,000, with $6,000 additional for those ages 50 and above. You can designate this by logging into your account at **osgp.voya.com**. Keep in mind that you must choose a dollar amount for each category as state payroll cannot process a percent of pay for each option.

Can I convert my pre-tax OSGP account to Roth?
Yes, you may convert your pre-tax dollars to Roth at any time. Keep in mind that you are responsible for paying the taxes on the conversion from sources outside of the plan. OSGP does not withhold taxes on in plan conversions.

How do I pay my taxes if I convert my pre-tax to Roth?
No taxes are withheld when dollars are converted; therefore, you will be responsible to pay any taxes when you file your tax return. You will receive a 1099R form for the year of the conversion.

How can I be sure my Roth distributions are tax free?
Distributions (including earnings) are tax-free as long as you have satisfied the 5-year holding period AND are age 59½ or older (assuming you have separated from service, are disabled, or a distribution is made to your beneficiary after your death). If your account does not meet these requirements, you will have to pay taxes on any earnings on your Roth account.

What about any amounts I have converted to Roth?
If you have been contributing to the Roth 457, the five year rule will begin on the first day of the taxable year in which you made your first contribution, not the day the conversion was made. If you have not been contributing, but then convert upon retirement/termination, the five year rule begins on that date.

What happens if my Roth contributions are not "qualified" at distribution? If your account does not meet the requirements above, you will have to pay taxes on any earnings on your Roth account.

Continued on back...

It is a wise participant who knows his own needs.

Answer the questions below to see if a Roth 457 is right for you.

YES	NO	
☐	☐	Plan to work quite a few more years before you retire?
☐	☐	Think your tax rate will be higher by the time you retire?
☐	☐	Willing to swap a current tax break for a longer-term tax benefit?
☐	☐	Can you afford to save more of your annual salary now so you can contribute the same to your after-tax Roth 457(b) as you would to your pre-tax 457(b)?
☐	☐	Like the idea of diversifying your tax strategy, just like you diversify your investment strategy?
☐	☐	Focused on passing as much as possible to your heirs?
☐	☐	Do you currently max out your pre-tax contributions?

NOTE: THE MORE BOXES YOU CHECK "YES," THE MORE YOU MAY WANT TO CONSIDER THE ROTH 457 OPTION.

Traditional, and Roth, and both.

Can't decide? A combination of pre-tax and Roth after-tax contributions may be right for you if you:

- Like the idea of tax-free retirement income, but also like the current tax deduction on your pre-tax contributions.
- Believe your taxes in retirement will be about the same or are unsure where taxes are headed in the future.
- Would like the flexibility to optimize your tax strategy year to year as you withdraw your retirement income.

To Roth, or not to Roth, that is the question.

So how do you decide which savings option — traditional, Roth, or both — makes sense for you? It depends on whether you think your federal income tax rate will be higher at retirement or lower.

Let's take a closer look.

	Traditional 457	Roth 457
Money going in	**Pre-tax** contributions are deducted from your salary before taxes are taken. That can reduce your taxable income.	**After-tax** contributions are subject to federal (and where applicable, state and local) income tax withholding.
Earnings, if any	Are tax-deferred until withdrawn.	Are tax-free as long as certain qualifying conditions are met.*
Money coming out	Distributions are taxable as current income when withdrawn.	Tax-free distributions if you are entitled to a distribution under the plan, as long as you've satisfied the five-year holding period and are age 59½ or older (assuming you have separated from service, disabled, or deceased).
Money moving on	Rollovers allowed to another Traditional governmental 457(b), 403(b), 401(a)/(k), or Traditional IRA or (if rolled directly) to a Roth IRA.	Rollovers allowed to another Roth account in a governmental 457(b), 403(b), 401(k), or Roth IRA. The period held under the 457 plan does not count toward the 5-year holding period under the Roth IRA. (Rollovers to plans other than a governmental 457(b) plan may be subject to the IRS 10% premature distribution penalty tax when withdrawn from the plan receiving the rollover, unless an exemption applies.)
Required minimum**	The IRS requires distributions to begin at age 70½ or retirement, whichever is later.	The IRS requires distributions to begin at age 70½ or retirement, whichever is later.

* *Roth contributions must be held at least five years before date of distribution and you must be age 59½ (assuming separation from service, death, or disability). You must be eligible for a distribution under the plan.*

** *An IRS 50% penalty tax applies to any RMD amount not taken in a timely manner.*

So, which option may be right for you?

Meet Claudio, Beatrice, and DJ...

Claudio (Age 45) considers himself in his "peak" earning years. He knows he won't be making this money forever, but wants to enjoy it while he can. Claudio:

- Doesn't think he can afford to lose another tax deduction at this point
- Doesn't really like change
- Expects to be in a lower tax bracket when he retires

	Traditional Pre-tax 457	Roth After-tax 457
Gross income	$75,000	$75,000
Annual salary available to save	$10,000	$10,000
Less taxes at 25%[1]	- $0	- $2,500
Net yearly contributions	$10,000	$7,500
Total over 20 years	$200,000	$150,000
Value at retirement*	$378,900	$284,200
Less taxes at 15%[2]	$56,800	- $0
After tax value	**$322,100**	$284,200

** Assumes 20 years of contributions at 6%*

CONCLUSION: *Consider Traditional 457*

Beatrice (Age 25) just started working for the State. She feels good about the fact she's already starting to build up her savings. Beatrice:

- Isn't worried about the tax deduction now
- Is confident her salary will increase over the years to come
- Expects to be in a higher tax bracket when she retires

	Traditional Pre-tax 457	Roth After-tax 457
Gross income	$35,000	$35,000
Annual salary available to save	$3,000	$3,000
Less taxes at 15%[1]	- $0	- $450
Net yearly contributions	$3,000	$2,550
Total over 40 years	$120,000	$90,000
Value at retirement*	$478,200	$406,480
Less taxes at 33%[2]	$159,500	- $0
After tax value	$318,700	**$406,480**

** Assumes 40 years of contributions at 6%*

CONCLUSION: *Consider Roth 457*

1 Based on current federal tax rates as of 2016.

2 Assumed rates designed to illustrate impact of lower and higher tax rates in retirement.

Note: These are hypothetical illustrations for demonstration purposes only. They are not intended to (1) serve as financial advice or as a primary basis for investment decisions and (2) imply the performance of any specific security. Contributions are subject to Internal Revenue Code limits. Systematic investing does not ensure a profit nor guarantee against loss. Investors should consider their ability to invest consistently in up as well as down markets. This example does not represent any specific product, nor does it reflect sales charges or other expenses that may be required for some investments. After-tax value of traditional 457(b) assumes a one-time lump-sum distribution. Your actual results may vary.

Nothing can come of nothing.

If you aren't contributing to OSGP, you may be missing an opportunity to save for a more secure retirement. The sooner you start saving, the more you may have when you retire.

What are you waiting for?
It only takes a few minutes.

- Go to **osgp.voya.com** to download an *Enrollment form*
- Call **800-365-8494** to speak with a customer service associate

DJ (Age 55) likes the idea of tax-free retirement income, but also likes his current tax deduction. And, he doesn't have a clue where taxes are headed in the future! DJ:

- Is getting close to retiring, but not that close
- Wants the flexibility to optimize his tax strategy year to year as he withdraws retirement income

	Traditional Pre-tax 457	Roth After-tax 457
Gross income	$60,000	$60,000
Annual salary available to save	$6,000	$6,000
Less taxes at 25%[1]	- $0	- $1,500
Net yearly contributions	$6,000	$4,500
Total over 10 years	$60,000	$45,000
Value at retirement*	$81,500	$61,100
Less taxes at 25%[2]	$20,400	- $0
After tax value	**$61,100**	**$61,100**

** Assumes 10 years of contributions at 6%*

CONCLUSION: *Consider both*

Whichever option you choose, you'll enjoy these benefits:

Investment flexibility
You select from the same investment options.

Convenience
You can put money aside using automatic payroll deductions.

Compound interest
Works to your advantage when investing for the long term.

Higher contribution limits
You can contribute more through OSGP than you can in an individual retirement account (IRA) you set up on your own.

Here are answers to commonly asked questions

Can I invest my Roth money separately from my pre-tax dollars in OSGP? Yes, once you are enrolled and have an established account, you can log in to your account and allocate future Roth contributions separately from any pre-tax contributions.

If I convert to a Roth 457, can I change my mind and have funds converted back to pretax? No, unlike a Roth IRA, all conversions are irrevocable.

I already have a Roth IRA; can I roll that into OSGP? No. The IRS does not permit rollovers from Roth IRAs at this time.

Can I roll other Roth accounts into OSGP? Yes, you may roll a Roth 457, Roth 401(k) or Roth 403(b) into OSGP.

On a conversion, how/when are the taxes applied, does a participant need to submit a Tax Withholding form along with the conversion request? No, taxes are not withheld by OSGP for a conversion. The participant will receive a 1099R and they will be responsible for paying the taxes outside of the Plan when they file their return for the year of the conversion.

When rolling funds from pre-tax to a Roth IRA, 401(k) or 403(b), does a member submit a Tax Withholding form with the Transfer/Rollover out form? No, the amount that is rolled over is whatever amount the participant requested and no taxes are withheld. The participant will receive a 1099R and be responsible for taxes when they file their return for the year of the conversion.

If I get an Unforeseeable Emergency Withdrawal (UE), can I use my Roth funds? Yes, you can, however, keep in mind that if you do, and you have not experienced a Roth Qualified event, you will have to pay taxes on any earnings on the Roth withdrawn. The UE form allows you to choose pre-tax and/or Roth for the distribution. If no choice is made, it will come out ONLY from the pre-tax.

What about a loan? Can I borrow money that is in my Roth? Yes. Loan amounts will first be deducted from pre-tax account and then, if needed, pro-rata from both pre-tax and Roth. The money will go back into the account in the same manner.

Do I have to take a Required Minimum Distribution (RMD) from my Roth account when I turn 70½? Yes, if your Roth is with OSGP, or another defined contribution plan, you are required to a take a minimum distribution at 70½.

Can my employer make contributions into my Roth 457? No. Only employee contributions can be contributed to the Roth 457.

Can I participate in the Schwab PCRA with Roth funds? Yes. You may choose to transfer Roth or pre-tax dollars into the PCRA when you sign up.

Nothing is rotten in the State of Oregon!

osgp.voya.com / Plan Information Line 800-365-8494 / Salem Office 888-320-7377

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