THE SCHOOL DISTRICT OF PHILADELPHIA
OFFICE OF EMPLOYEE BENEFITS
440 North Broad Street, Suite G10
PHILADELPHIA, PENNSYLVANIA 19130

TELEPHONE (215) 400-4630 FAX: 215-400-4631

Comparison of 403(b) offerings by the School District of Philadelphia

From IRS Publication 4530

Feature	Traditional Pre-Tax 403(b) Account	Designated Roth 403(b) Account
Contributions	Traditional pre-tax employee elective contributions are made with ***pre-tax** dollars.*	Designated Roth employee elective contributions are made with ***after-tax** dollars.*
Income Limits	No income limitation to participate	Same as Traditional 403(b)
Maximum Elective Contributions	**Combined* employee elective contributions** limited to $18,000 in 2017 ($24,000 for employees 50 or over). * This limit is by individual, rather than by plan. Although permissible to split the annual employee elective contribution between designated Roth contributions and traditional pre-tax contributions, the combination cannot exceed the deferral limit — $17,500 in 2013 ($23,000 if age 50 or over).	
Taxation of Withdrawals	Withdrawals of contributions and earnings ***are*** subject to federal and most state income taxes.	Withdrawals of contributions and earnings ***are not*** taxed provided they are a **qualified distribution**. (See Q&A)
Distribution Restrictions	Distributions are available due to death, disability, separation from service, attainment of age 59½ or hardship.	Same as Traditional 403(b)
Early Withdrawal Penalties	Distributions prior to age 59½ are subject to a 10% penalty, unless the distribution was the result of death, disability, or the participant separated from service in the calendar year that he or she attained the age of 55 or older.	The earnings portion of the account is subject to the same rules as the Traditional 403(b). (See example in Q&A)

Frequently Asked Questions about the Roth 403(b)

Q: Can I make both pre-tax elective and designated Roth contributions in the same year?

A: Yes. You can make contributions to both a designated Roth account and a traditional, pre-tax account in the same year in any proportion you choose. **However, the combined amount of all elective contributions made by an individual in any one year is limited by the 402(g) limit---$18,000 for 2017.** An additional $6,000 in catch-up contributions, for persons 50 or older, can also be allocated between the traditional and designated Roth accounts.

Q: Does a new account need to be established under my 403(b) plan to receive my designated Roth contributions?

A: Yes. Designated Roth contributions must be kept completely separate from previous and current 403(b) pre-tax elective contributions. A separate account must be established for each participant making designated Roth contributions.

Q: What is a qualified distribution from a designated Roth account?

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

- Made on or after the date the employee attains age 59½,
- Made on or after the employee's death, or
- Attributable to the employee being disabled.

A qualified distribution from a designated Roth account **is not includable** in the employee's gross income.

*The 5-taxable-year period of participation beings on the first day of the employee's taxable year *(between January 1 and December 31)* for which the employee first made designated Roth contributions to the plan. It ends when five consecutive taxable years have passed.

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

A: If an employee takes a distribution from his or her designated Roth account before the end of the 5-taxable-year period, it is a **nonqualified distribution**. The employee must include the income (or 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.

Example: If a non qualified distribution of $5,000 is made from an employee's designated Roth account when the account consists of $9,400 of designated Roth contributions and $600 of earnings (creating an account total of $10,000) the distribution consists of $4,700 of designated Roth contributions (that **are not includible** in the employee's gross income) and $300 of earnings (that **are includible** in the employee's gross income).