



# Facts about Roth 457(b) contributions

## Contributing to a comfortable retirement

A 457(b) is a retirement plan designed specifically for state and local government employees that can supplement your pension and help you enjoy a more comfortable retirement. If you work for a police or fire department (or are another type of civil servant), you may be eligible for a 457(b) retirement plan available through your employer. No matter where you are in life, it can be a smart choice that may give you a level of confidence along your path to a fulfilling future.

**If your plan permits, you may be able to make Roth contributions with after-tax dollars.<sup>1</sup>**

## How Roth 457(b) contributions work

Contributions to a designated Roth account under a governmental employer 457(b) plan (a Roth 457(b) account) are made with after-tax dollars. Distributions from Roth 457(b) contributions and earnings are not subject to federal income taxes (and possibly state income taxes) provided the account has been held for at least 5 years prior to distribution and one of the following qualifying events has occurred: age 59½, disability or death.

- You can make traditional 457(b) pretax contributions, Roth 457(b) after-tax contributions or a combination of both.
- Roth 457(b) contributions:
  - Are automatically deducted from your compensation,
  - Count toward annual 457(b) contribution limits and
  - Cannot be converted 457(b) pretax contributions.
- To make Roth 457(b) contributions, you do not have to meet adjusted gross income (AGI) requirements. (AGI applies to Roth IRA contributions.)
- You may be able to convert pretax 457(b) contributions in your account to Roth contributions. Check with your financial professional for details.
- You can roll over funds from a Roth 457(b) account to and from either another governmental 457(b), 403(b) or 401(k) plan that accepts rollovers from designated Roth accounts. Additionally, you can roll over funds from a governmental employer Roth 457(b) account to a Roth IRA account (but not vice versa), at which time Roth IRA rules will apply.

- Most other 457(b) rules apply to Roth 457(b) accounts, such as loans or required minimum distribution rules. Withdrawals from 457(b) plans are generally not allowed unless there is a separation from service or the participant reaches age 59½, and are subject to normal income tax treatment. Amounts rolled over from another eligible plan are tracked separately and may be subject to an additional 10% federal income tax penalty if withdrawn.

## Retirement planning

Roth 457(b) contributions offer you an opportunity to receive tax-free distributions at retirement. You may want to consider the Roth 457(b) option if:

- You want to reduce your potential taxes during retirement by receiving tax-free distributions from a 457(b) plan. This could be valuable if you expect your tax rate to be the same or higher at retirement than it is now. This may also be attractive if you expect to receive a taxable pension or other taxable retirement benefits.
- You have been limited by the lower maximum contribution limits in a Roth IRA. Or, because of the adjusted gross income eligibility requirement, you have not been eligible to contribute to a Roth IRA at all.
- You want your beneficiaries to receive tax-free distributions (provided you had your account for at least 5 years at the time of your death).
- You are currently in a relatively low income tax bracket and are more interested in tax-free distributions later than tax deferral now.

# A comparison of 457(b) pretax and Roth after-tax contributions

## 457(b) pretax

Salary reduction contributions	<ul style="list-style-type: none"><li>• \$19,500<sup>2</sup></li><li>• Limit applies to the combined total of pretax and Roth after-tax contributions.</li></ul>
Catch-up options	<ul style="list-style-type: none"><li>• \$6,500<sup>2</sup> if age 50+</li><li>• Limit applies to the combined total of pretax and Roth after-tax contributions.</li></ul>
Tax treatment on contributions	Not subject to federal and, in most states, state income taxes, when contributions are made.
Rollover rules	<ul style="list-style-type: none"><li>• Rollovers are permitted for pretax funds from eligible retirement plans.<sup>3</sup></li><li>• In-plan, direct-conversion rollovers from a pretax account in a governmental employer 457(b) plan to a Roth 457(b) account under the same plan, if you meet the plan's distribution requirements.</li></ul>
Qualifying events for distribution	Severance of employment, unforeseeable emergency or reaching age 59½.
Tax treatment of cash distributions (not rolled over)	Ordinary income tax will apply to all amounts (a 10% penalty tax may apply to amounts that have been rolled into the plan from retirement accounts if under age 59½ and no exception applies). No 10% penalty tax applies to the 457(b) amounts.
Required minimum distribution	Age 70½ severance of employment, unforeseeable emergency or reaching age 59½.

## Roth 457(b) after-tax

Salary reduction contributions	<ul style="list-style-type: none"><li>• \$19,500<sup>2</sup></li><li>• Limit applies to the combined total of pretax and Roth after-tax contributions.</li></ul>
Catch-up options	<ul style="list-style-type: none"><li>• \$6,500<sup>2</sup> if age 50+</li><li>• Limit applies to the combined total of pretax and Roth after-tax contributions.</li></ul>
Tax treatment on contributions	Subject to federal and state income taxes when contributions are made.
Rollover rules	Rollovers are permitted between Roth 457(b) accounts, between Roth 457(b), Roth 403(b) and Roth 401(k) accounts, and to a Roth IRA.
Qualifying events for distribution	Severance of employment, unforeseeable emergency or reaching age 59½.
Tax treatment of cash distributions (not rolled over)	<ul style="list-style-type: none"><li>• Contributions: tax-free</li><li>• Earnings<ul style="list-style-type: none"><li>• Tax-free if the Roth 403(b) account has been held for at least 5 years and one of three Roth-qualifying events has occurred: age 59½, disability or death.<sup>4</sup></li><li>• Ordinary income tax will apply if the 5-year holding period and one of three Roth-qualifying events—age 59½, disability or death—are not met.</li></ul></li></ul> <p>(A 10% federal income tax penalty also applies to the earnings portion if under age 59½ and no exception applies.<sup>5</sup>)</p>
Required minimum distribution	Severance of employment, unforeseeable emergency or reaching age 59½.

## Learn more

**Remember, Roth 457(b) contributions are after-tax salary reduction contributions, which makes them subject to federal and state income taxes (in states where those taxes apply) at the time the contributions are made. Roth 457(b) contributions may fit well into retirement planning where you seek balance between taxable and tax-free retirement income. Speak with your financial professional about your needs and goals.**

- 1 Please note that 403(b) plans are not required to include Roth 403(b) contributions, which became available on January 1, 2006. Check with your employer or your financial professional to see if your 403(b) plan accepts Roth 403(b) contributions. The information in this summary is based on the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the Pension Protection Act of 2006, the Small Business Jobs Act of 2010 and applicable Treasury regulations.
- 2 This limit is effective through December 31, 2020, and may be indexed in future years.
- 3 Eligible retirement plans include IRAs, 403(b) plans, governmental 457(b) plans and 401(k) plans.
- 4 Withdrawals from a Roth 403(b) for a first-time home purchase are not a qualifying event and therefore, would not be tax-free for participants who are not yet age 59½.
- 5 The 10% federal income tax penalty does not apply if severance of employment occurs in the same calendar year (or later) as the attainment of age 55, or if age 59½ or older.

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