

Roth 403(b) Plans

CONCEPT APPLIED:

Employees of public school systems, state colleges and universities, and tax-exempt organizations (such as charities and hospitals) can maximize retirement savings in a Roth 403(b) plan by starting early and contributing after-tax dollars that grow and are distributed tax-free in retirement.

HOW IT WORKS:

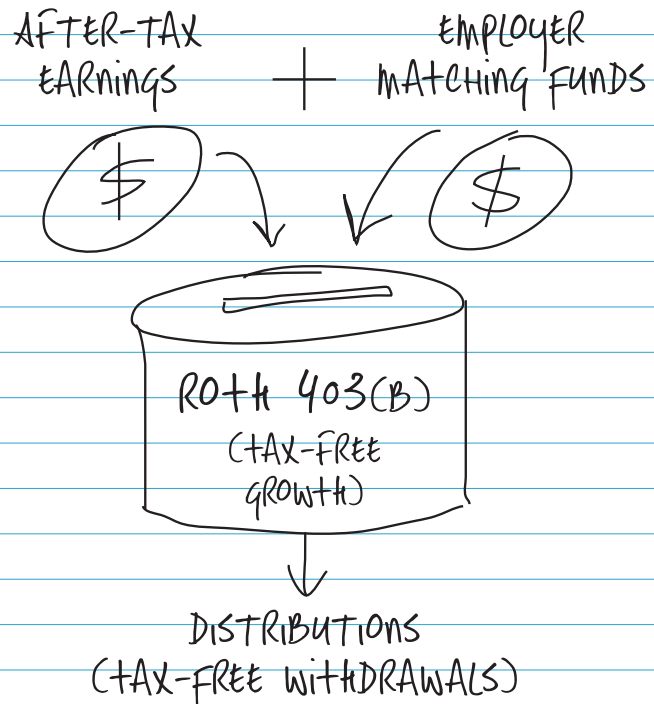
Eligible employees can defer a portion of their after-tax salary up to the annual contribution limit (\$23,500 in 2025, or \$31,000 for participants over 50, with a special \$34,750 limit for participants age 60-63). Any employer matching contribution is includable in the employee's taxable income in the year the employer allocates the contribution, then grows in the account tax-free. There are no income limitations. If the account has been open for at least five years, participants 59½ or older can take "qualified withdrawals" free of tax or penalty. Beginning in 2024, there are no required minimum distributions (RMDs).

WHY IS IT USEFUL?

Roth 403(b) participants can enjoy tax-free growth and withdrawals. High earners and employees who expect to be in a higher tax bracket when they retire may benefit from paying tax on contributions and securing tax-free withdrawals later in life.

50 WORDS OR LESS

A Roth 403(b) is an employer-sponsored retirement plan that allows participants to make after-tax contributions, then enjoy potentially tax-free growth, plus tax- and penalty-free withdrawals after age 59½. The employee owes no further taxes on withdrawals of either the contributions or the earnings following the after-tax contribution.



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