

Roth option for 457(b)

Roth contributions can increase your tax flexibility in retirement

Get potentially tax-free retirement income with Roth contributions

Ohio457.org

877-644-6457

OHIO Deferred Compensation
Invest in you.

You have probably heard of a Roth IRA — an investment vehicle that lets you make contributions that are not tax deductible but provide tax-free distributions in retirement after certain conditions are met. Did you know there is also a Roth option for 457(b) deferred compensation plans?

Whether you decide to make Roth contributions will depend on your individual financial circumstances, such as your current income and anticipated income in retirement, and current and future tax rates. Unlike for Roth IRAs, there are no income limits for Roth 457(b) options. Contribution limits are also higher for Roth 457(b) options compared with Roth IRAs. You can visit our online tool for more information, but you should also consult with a tax advisor to assist you in making a decision.

Does my employer allow Roth contributions?

Your employer must choose to offer the Roth 457(b) option for it to be available to you. Contact us if you have questions, or check with your employer to determine whether they offer the Roth option.

What are Roth contributions?

Roth contributions are deducted from your pay on an after-tax basis, unlike pre-tax contributions that reduce your gross taxable income. Roth contributions grow tax deferred, and when a withdrawal is qualified, it is not subject to federal or state income taxes. The availability of tax-free withdrawals is what makes the Roth option attractive.

What is a qualified withdrawal?

Withdrawals of Roth contributions and pre-tax contributions require a separation from employment (termination of employment), unless you qualify for an unforeseeable emergency (UE) withdrawal. UE withdrawals are permitted from Roth accounts, but net earnings are subject to taxation and withholding if nonqualified.

If a Roth withdrawal is available, it must meet 2 requirements to be considered qualified. The first is that the withdrawal must be made after age 59½ or because of death or disability. The second is that the initial Roth contribution must have been made to the Plan at least 5 tax years before the withdrawal. The Roth period starts at the beginning of the year in which the first Roth contribution is made and is met on the fifth anniversary of that date. For example, for a participant who made their first Roth contribution on July 25, 2025, their first Roth tax year would have started on January 1, 2025, and the five-year requirement would be met on January 1, 2030.

If the Roth withdrawal meets the 2 requirements above, it is a qualified withdrawal and the entire withdrawal amount is tax free. If the Roth withdrawal does not meet both requirements, it is nonqualified and the portion attributed to the Roth contributions is not subject to income tax, because it was already taxed when it was made. The growth (net earnings) portion of the withdrawal would be taxable. For example, if 25% of the Roth account value was due to growth, 25% of any withdrawal would be considered taxable.

Roth accounts are not subject to required minimum distributions.

How do Roth and pre-tax contributions compare?

Paying taxes on your retirement savings is inevitable. With a Roth account, you pay taxes on your contributions now, but your qualified withdrawals are tax free. Pre-tax deferred compensation contributions reduce your current tax bill, but those withdrawals are taxed when received.

The primary advantage of Roth contributions is the potentially tax-free withdrawals, because pensions, Social Security benefits and other types of income are likely to be subject to taxation.

Income tax credits and deductions, as well as some governmental benefits, may be reduced if taxable income is high. Having sources to draw upon that are not subject to income tax could be very helpful.

The primary disadvantage of Roth contributions is that they do not reduce current income taxes. There are very few tax deductions available to most taxpayers, and many deductions, credits and exemptions may be reduced based on the level of taxable income. For some participants, current income-tax savings is an important part of making contributions affordable. Although pre-tax contributions will result in taxable withdrawals in the future, planning can limit the impact of those taxes, and withdrawals are not required until after reaching the age required by the IRS, allowing for extended tax deferral. Lowering your taxes when you are subject to higher rates, such as in your working years, and paying taxes at lower rates, typically during retirement, is usually considered good tax planning.

How are Roth contributions shown in my account?

Roth contributions are held in a separate account from pre-tax contributions, as required by law. Although separately recorded, they will be included in your quarterly statements and in all summaries and totals. There are no additional administrative fees related to the creation of a Roth account.

	Pre-Tax 457(b)	Post-Tax Roth 457(b)
Taxation	Contribution made before tax; reduces current income tax; taxes are deferred until distribution	Contribution made after tax; pay current income tax now; qualified distributions are free from federal and state taxes[1]
2025 Annual Regular Limit	$23,500 (includes both pre-tax and post-tax Roth contributions)	$23,500 (includes both pre-tax and post-tax Roth contributions)
2025 Annual 50+ Catch-up Limit	$31,000 (includes both pre-tax and post-tax Roth contributions)	$31,000 (includes both pre-tax and post-tax Roth contributions)
2025 Annual Age 60-63 Catch-up Limit	$34,750 (includes both pre-tax and post-tax Roth contributions)	$34,750 (includes both pre-tax and post-tax Roth contributions)
2025 Annual Traditional Catch-up Limit	$47,000 (includes both pre-tax and post-tax Roth contributions)	$47,000 (includes both pre-tax and post-tax Roth contributions)
Income Limit	None	None
Employer Match	May be provided	Employers can match a Roth contribution
Rollover	May be rolled over into another pre-tax plan or into a traditional pre-tax IRA	May be rolled over into another Roth plan or Roth IRA
Required Minimum Distributions (RMD)	Required (if terminated) Distributions must satisfy certain minimum requirements after reaching the age required by the IRS.	Not required

How much can I contribute?

Roth contributions, combined with pre-tax contributions, can be made up to the IRS annual limits. Participants choose how to allocate their contributions in dollars between pre-tax and Roth (after tax). For example, a participant could split a $500 total biweekly contribution by putting $300 in pre-tax and designating $200 as Roth. Participants can change how they split their contributions at any time, but once a contribution is made, it cannot be reclassified.

How are my Roth contributions invested?

Participants will provide allocation directions from the available investment options for their Roth contributions upon enrollment. Allocation directions can be changed anytime and do not have to be the same as any pre-tax accounts.

Who is the beneficiary of my Roth account?

Participants may choose an individual(s), their estate, a trust, or a charitable organization as a beneficiary for the Roth account. To select, change or update your beneficiaries, log in to your account online or download the beneficiary form. A participant's age, death or disability is used to determine qualified status for a distribution to an alternate payee or beneficiary. If a distribution is rolled over, the alternate payee or beneficiary's age, death or disability is used. Beneficiaries retain the same income tax treatment as if the participant had received the withdrawal. The five-year holding requirement applies for a withdrawal to be considered qualified even in the case of death.

Are in-plan conversions permitted for pre-tax accounts/contributions?

No. In-plan conversions are not permitted at this time.

Are Roth IRA rollovers into Ohio DC permissible?

Federal regulations do not allow rollovers of Roth IRA funds into a Roth 457(b) deferred compensation plan.

Are Roth 457(b), 401(k) and 403(b) rollovers into Ohio DC permissible?

No, not currently.

How do I enroll in a Roth 457(b)?

Once you have determined that your employer offers the Roth 457(b), you will need to enroll in a Roth 457(b) account. You can enroll in a Roth account online, in person or by requesting paperwork at **877-644-6457**. Existing participants will need to log in online and add an account to enroll in a Roth 457(b).

Source: "401(k) limit increases to $23,500 for 2025, IRA limit remains $7,000," IR-2024-285, Internal Revenue Service (Nov. 1, 2024).

[1] Earnings from a Roth are not taxable if the distribution is made after 5 consecutive tax years since the first Roth contribution was made AND the distribution is made after age 59½ or because of death or disability. Investing involves market risk, including possible loss of principal.

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