Roth 403(b) is here!

Beginning in **January 2013**, UVA will be offering a Roth contribution option to your existing **UVA 403(b) Tax-Deferred Savings Plan**. With the addition of this new Roth 403(b) feature, you will have another choice on how to save for your retirement. Roth 403(b) contributions and withdrawals are taxed differently than your current plan contribution options. We want you to be aware of this new option now so that you can plan your 2013 contributions accordingly.

To help you make more informed decisions regarding this new contribution, we have included some educational information on the Roth 403(b) option.

How do Roth 403(b) contributions differ from traditional 403(b) contributions?
With a Roth 403(b) feature, you can designate all or a portion of your future deferral contributions as "Roth contributions." Traditional 403(b) contributions are made on a pre-tax basis and are not included in current taxable income. The pre-tax contributions and any earnings will be subject to income taxes when withdrawn. In contrast, Roth 403(b) contributions are made on an after-tax basis and are included in current taxable income. Earnings are tax free if they are part of a "qualified distribution." A qualified distribution is one that is taken at least 5 tax years from the year of your first Roth 403(b) contribution and after you have attained age 59 ½, become disabled or deceased.

How may Roth 403(b) contributions affect your paycheck?
You elect a percentage of your salary that you wish to contribute to the Roth source within your existing plan, just like a traditional 403(b) contribution. However, *unlike* your traditional 403(b) contribution, you pay taxes up front on the Roth contribution. Therefore, your take home pay will be less if you are making Roth contributions than it would be if you were making traditional Pre-tax contributions.

Hypothetical example:
Assume eligible gross compensation is $60,000 per year or $5,000 per month with a 25% federal income tax withholding rate

	Pre-Tax contributions	**Roth contributions**
Contribution	10%	10%
Compensation	$60,000	$60,000
Less: Pre-tax contribution for the year	($6,000)	$0
Taxable Income	$54,000	$60,000
Less: income taxes (25%)	($13,500)	($15,000)
Less: Roth contribution	$0	($6,000)
Net after-tax (take home pay)	**$40,500**	**$39,000**
Difference in take home pay for the year is:		**($1,500)**

This hypothetical example is for illustrative purposes only. It shows the potential impact on take-home pay assuming a pre-tax or after-tax annual contribution of $6,000 based solely on an assumed 25% federal income tax withholding rate. Actual taxes and take home pay will depend on your individual tax situation. No other payroll deductions are taken into account. Pre-tax contributions and any related earnings will be taxed at the time of withdrawal. Any earnings on after-tax Roth contributions are tax-free if certain conditions are met.

Can I make contributions to both the Traditional Pre-tax 403(b) and the Roth 403(b) source?
Yes. You may contribute to both the traditional Pre-tax and Roth option as long as you do not exceed the total IRS contribution limit for that year. In 2013, the combined IRS contribution limit for both Roth and traditional Pre-tax contributions if you are under age 50 is $17,500. If you are over age 50 and make catch-up contributions, the combined IRS contribution limit for both Roth and traditional Pre-tax contributions is $23,000.

Are there eligibility restrictions on contributing to a Roth 403(b) option?
No, if you are eligible to make Pre-tax contributions to your traditional 403(b) plan, you are eligible to make Roth 403(b) contributions. In addition, unlike a Roth IRA, the Roth contributions to your retirement plan are not subject to restrictions based on your adjusted gross income.

How do I know if a Roth 403(b) option makes sense for me?
Generally, if you expect to be in the same tax bracket in retirement as now, a traditional, pre-tax or a Roth 403(b) contribution are roughly equivalent from a tax perspective. If you expect to be in a higher tax bracket in retirement, a Roth 403(b) may be the better choice since you won't pay taxes on qualified distributions of earnings. If you expect to be in a lower tax bracket in retirement, then a traditional, pre-tax contribution may make more sense for you. Whether to contribute to the Roth option depends on your own personal situation and many factors should be taken into account. Due to the differing tax implications associated with traditional, pre-tax versus Roth 403(b) contributions, and the potential impact they may have on your current adjusted gross income, which may affect your eligibility for other tax credits and benefits, you may wish to consult with a tax or financial advisor regarding your individual situation.

Enclosed is a more detailed Roth 403(b) guide to help you make informed decisions regarding this new savings option. Please contact a Fidelity Retirement Services Representative for more information at **800-343-0860**.

Sincerely,

Fidelity Investments

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